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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

APR 27 1982

Honorable T. H. Bell
Secretary of Education
Washington, D.C. 20202

Dear Mr. Secretary:

In accordance with the requirements of Section 5 of the Inspector General Act of 1978 (P.L. 94-452), I am submitting this semi-annual report on the activities of the Department's Office of Inspector General for the six-month period ending March 31, 1982. Highlights of our activities and accomplishments are provided in the Executive Summary which begins on page i.

The Act requires that you submit this report, along with any comments of your own, to appropriate Congressional Committees and Subcommittees within 30 days.

Your cooperation and support have played a major role in successes achieved by the Office of Inspector General in making the Department programs more efficient and economical and in preventing and detecting fraud and abuse.

Sincerely,

James B. Thomas, Jr.

James B. Thomas, Jr.

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202

EXECUTIVE SUMMARY

This is the fourth semi-annual report issued by the Department of Education (ED), Office of Inspector General (OIG). The report, prepared pursuant to the provisions of the Inspector General Act of 1978 (P.L. 95-452), summarizes the activities and accomplishments of the OIG during the period October 1, 1981 through March 31, 1982. Reporting requirements mandated by the Act are indexed to this report on page V-1. Highlights of our activities and accomplishments for this reporting period follow:

- We issued and processed a total of 2,454 reports on ED operations, grantees and contractors. These reports recommended disallowance of costs totaling \$57.7 million and questioned additional costs of \$48.8 million on the \$4.8 billion audited (page I-4). Our audits also identified potential cost avoidances of about \$7.3 million (page I-3). Our audits again disclosed some major problems in the administration of ED programs by State and local education agencies, and others. Several of the problems noted have national implications and have been or will be addressed in comprehensive reports to Departmental managers (page I-8).

- The Department has made significant headway in reducing the number of unresolved audits over six months old. As of March 31, 1982, there were 164 unresolved audits over six months old, compared to 1,804 at the end of the previous period. Program managers sustained and marked for recovery approximately \$32.4 million in costs recommended for disallowance or questioned (page I-37). In addition, during this period a total of \$7.7 million was recovered on resolved audits (page I-39).

- During this period, the OIG opened 119 investigative cases and closed 101. U.S. attorneys accepted 36 cases for prosecution and OIG cases resulted in 24 indictments this period. Also, OIG investigations led to 34 convictions this period compared to 16 in the previous period. Fines, restitutions, and cash settlements totaled more than \$3.9 million (page II-2).

Examples of some of the more significant audits and investigations completed this period follow:

- The contribution rate charged federally funded projects for unemployment insurance in one State was nine times the rate charged State-sponsored programs. The auditors recommended that excess Federal contributions totaling $18.4 million be refunded to the Federal government and that the State periodically review and adjust the contribution rate for Federal projects (page I-10).

- A review of the vocational education program in one State disclosed that the State expended as much as $27.1 million on ineligible projects and made inappropriate accounting adjustments of $767,000 to avoid return of unused funds. Auditors recommended that the State refund $27.9 million to ED (page I-15).

- A Statewide bilingual education review disclosed that the program was not being effectively administered and that the intent of the program was not being met. The auditors identified as much as $5.9 million misspent and an additional $1.3 million in costs which could be avoided. The auditors recommended that the local school districts refund $5.9 million, that certain projects be cancelled, and that funding be withheld on others (page I-20).

- A review of a State guarantee agency disclosed among other things, that Federal seed advances of about $1.3 million to assist the agency in meeting defaulted student loan payments to lenders were in excess of needs. The auditors recommended that the agency consider returning the unneeded advances. The auditors also recommended that the Department reevaluate the requirements governing return of unneeded advances because current requirements preclude their effective recovery (page I-23).

- A prominent company, in a plea agreement, pleaded guilty to three counts of false statements and one count of mail fraud, admitting that it lied to the government in its handling of default claims submitted under the Guaranteed Student Loan program. In addition to a fine of $31,000 which has been paid, the plea agreement stipulates that the firm reimburse ED $3,750,000 for improper default claims. This too has been paid (page II-6).

- A Federal grand jury returned an 18-count indictment against two men in connection with defrauding the Pell Grant program. The indictment alleged that from 1976 through 1979 the defendants, principal officers and operators of a group of proprietary schools, engaged in a scheme to improperly disburse approximately $800,000 of Federal education monies received (page II-7).

- The president and owner of a business college was convicted and a second official of the college pleaded nolo contendere on several counts in connection with a scheme to defraud the Pell Grant program. The school obtained over $157,000 in Pell Grants by falsely claiming that 232 inmates of the penitentiary were enrolled full time in a course offered by the school at the prison. The president and owner was sentenced to two years' imprisonment and fined $10,000. The second official is awaiting sentencing (page II-8).

- A former co-owner of a cosmetology school was indicted by a Federal grand jury on charges of mail fraud, embezzlement, false statements, and student financial aid fraud. The ED-OIG investigation disclosed that the former co-owner misappropriated at least $99,000 in Pell Grant and National Direct Student Loan funds between June 1974 and October 1980 (page II-8).

SECTION I

AUDIT ACTIVITIES

A. INTRODUCTION

During this reporting period, our audit activities again resulted in substantial benefits to the Department. Costs recommended for disallowance or questioned increased, as did the total dollar amount of costs sustained by management and marked for recovery.

Several of the audits were particularly beneficial to the Department because they identified opportunities for improvements in: delivery of services to program recipients; controls exercised by recipients over Federal funds provided; and program regulations affecting delivery of services. The audits also identified a potential for reducing Federal outlays needed to fund the programs. The recommendations made on the audits will, if effectively implemented, result in recoupment of substantial amounts of misused or idle Federal funds and improved effectiveness in identifying and delivering services to targeted groups. They will also provide greater assurance that Federal funds are being properly controlled and effectively administered at the State and local levels.

The Department has made significant inroads in solving the audit resolution problems outlined in our last semi-annual report. This is especially true with regard to decreasing the backlog of audit reports over six months old. While improvements made to date have been impressive, the Department needs to ensure that appropriate attention, emphasis and resources continue to be applied to this important task.

The following sections include information on audit reports issued, costs audited, costs recommended for disallowance or questioned, and highlights of significant findings and recommendations. They also include data on the status of unresolved audits and updates on the status of significant recommendations included in the previous semi-annual reports. Audit reports completed by Federal auditors during the period are listed beginning on page V-2.

B. ACCOMPLISHMENTS

Our audit accomplishments this period compared favorably with accomplishments reported in prior semi-annual reporting periods. We issued or processed 2,454 audit reports that, in addition to suggestions for management improvements, recommended disallowances or questioned costs of $106.5 million. In addition, program managers sustained $32.4 million of the $54.6 million in costs recommended for disallowance or questioned on audit reports resolved this period. These and other accomplishments achieved during this six-month period are shown in the following comparative schedule.

COMPARATIVE SCHEDULE OF
OUTPUT/PRODUCTIVITY MEASURES
(Dollars in Millions)

Output/ Productivity Measures	Six-Month Periods Ending: 3/31/81	9/30/81	3/31/82
Reports Issued	2,761	2,707	2,454
Costs Audited	*	$6,300	$4,838
Recommended Disallowed/ Questioned Costs	$ 30	$ 78.7	$ 106.5
Costs Sustained on Audits Closed	$ 7.6	$ 27.6	$ 32.4
Recoveries	$ 2.6**	$ 2.8**	$ 7.7
Potential Cost Avoidance	$ 2.0	$ 2.3	$ 7.3
Administrative Fines Imposed	*	$ 3.0	-0-

*Data not available.
**Does not include all recoveries since data from Financial Management Service was not available.

The 2,454 reports issued or processed include financial and compliance audits of grantee operations, economy and efficiency reviews of Departmental programs and operations, and contract audits. Costs recommended for disallowance or questioned on these reports represent Federal funds which were not spent in accordance with legal requirements or the terms of grant or contract provisions. A schedule showing reports issued or processed this period along with costs

recommended for disallowance or questioned by major Departmental operating components follows.

SCHEDULE OF COSTS AUDITED
AND COSTS DISALLOWED/QUESTIONED
BY OPERATING COMPONENTS
(Dollars in Millions)

Operating Components	No. of Reports	Costs Audited	Recommended Cost Disallowance	Costs Questioned
Office of Postsecondary Education	2,187	$1,913.2	$10.3	$ 8.3
Office of Assistance Management and Procurement Service	193	273.0	3.5	7.9
Office of Special Education and Rehabilitative Services	18	327.8	2.7	13.4
Office of Elementary and Secondary Education	21	1,594.4	20.3	.4
Office of Educational Research and Improvement	13	71.9	.2	.4
Office of Bilingual Education and Minority Languages Affairs	9	38.5	5.9	-0-
Office of Vocational and Adult Education	8	545.5	14.8	18.4
Office of Management	5	74.0	-0-	-0-
TOTALS	2,454	$4,838.3	$57.7	$48.8

Some of the major audits leading to the large amounts of dollars recommended for disallowance or questioned in these program areas, are described in the Highlights of Significant Audits section of the report (page I-8).

C. SOURCE OF AUDITS

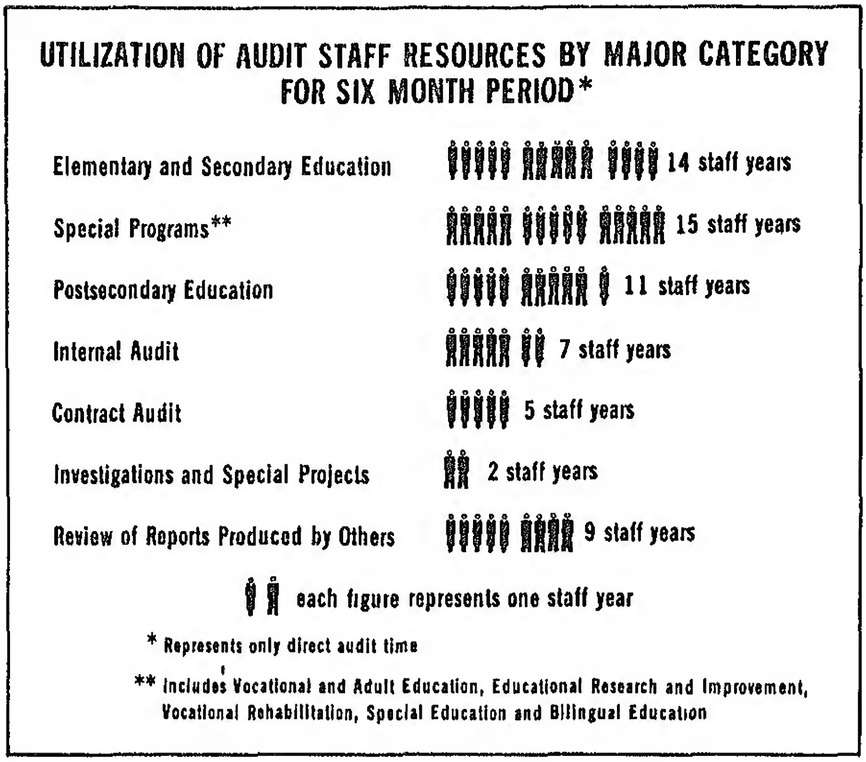
The audit reports issued this period represent both those audits completed by our own staff and those processed by us which were completed by other Federal auditors, State and other non-Federal auditors, and independent public accountants. A schedule showing the sources of all reports issued and costs recommended for disallowance or questioned by Federal or non-Federal audit groups follows:

SOURCE OF AUDITS ISSUED
(Dollars in Millions)

Source of Audits	Number of Reports	Costs Audited	Recommended Cost Disallowances	Costs Questioned
Federal Auditors				
ED-OIG	144	$2,164.0	$47.7	$31.4
Others	63	298.7	1.6	.5
State and Other Non-Federal Auditors	156	715.7	.2	2.5
Independent Public Accountants	2,091	$1,659.9	8.2	14.4
TOTALS	2,454	$4,838.3	$57.7	$48.8

1. Allocation of Audit Resources

As indicated in the schedule above, ED-OIG issued a total of 144 audit reports which recommended disallowances or questioned costs totaling $79.1 million. Direct audit time devoted to performance of these audits is illustrated in the following chart.



During this period, we again expended a large part of our audit resources (15 staff years) on audits classified under the special program area. This was attributable, in large measure, to our efforts to complete Vocational Education audits in all 50 States, the District of Columbia and six territories by the end of fiscal year 1982 as required by Public Law 94-482.

Although we had planned to complete most of these audits in fiscal year 1982, severe cutbacks in travel funds, due to budgetary restrictions, have caused us to defer initiation or completion of a large number of the reviews. Therefore, we will be unable to meet the mandated audit requirements by September 30, 1982.

As of the end of this period, we have completed 23 of these audits. An additional 14 are in process and should be completed by September 30, 1982, leaving 20 to be completed.

Major audit efforts were also applied in the areas of Elementary and Secondary Education, Postsecondary Education and internal audits. The allocation of our audit resources in these areas continues to provide a good return on our investment through recovery of costs disallowed and questioned. Additionally, use of our resources in this manner provides the Department with a well balanced program of internal and external audit coverage. Through these efforts, ED management has been provided numerous recommendations for improving the operations under review and avoiding unnecessary costs.

In keeping with our audit oversight responsibilities, we also spent approximately nine staff years on desk reviews and quality control reviews. These reviews are made to ensure that the audit reports and actual audit work performed for us by independent public accountants and others meet high quality standards.

2. Audits Performed by Independent Public Accountants

Most of the audit reports issued during the period (see page I-5) were prepared by independent public accountants. The vast majority of these audits involved financial and compliance reviews of Student Financial Assistance programs. The audits are required by Department regulations and represent 85 percent of the audit reports issued in the last six months. Audits by independent public accountants are

performed in accordance with guidelines established by the OIG which include standards established by the Comptroller General.

As in the last report, independent public accountants cited thousands of financial and compliance type deficiencies in Student Financial Assistance program audits. Deficiencies by category are shown below.

DEFICIENCIES BY CATEGORY

Type of Deficiencies	Number of Deficiencies	Percent
Administrative	1,575	28%
Accounting	1,640	29
Student Records	781	14
Regulatory Violations	646	11
Program Award Processing	652	12
Abuse and Mismanagement	319	6
TOTALS	5,613	100%

D. HIGHLIGHTS OF SIGNIFICANT AUDITS

Following are examples by major program area of some of the more significant audit findings included in reports issued during this period. The findings include a wide range of deficiencies in the conduct and administration of Departmental programs and activities by State and local governments, educational institutions, profit and non-profit organizations, and Departmental headquarters and regional offices. These deficiencies range from poor accounting practices and inadequate administration of program activities

to misuse of Federal funds, and have resulted in recommended disallowances or questioned costs involving over $100 million.

1. <u>Elementary and Secondary Education</u>

Major program areas administered by the Office of Elementary and Secondary Education include: education to disadvantaged children; assistance to States and local school districts in improving educational quality; and assistance to school districts in which the tax base is diminished by the presence of Federal facilities. By far, the largest program administered is Title I of the Elementary and Secondary Education Act.

The purpose of Title I is to provide Federal assistance to local education agencies for planning and operating special education programs for educationally deprived children in areas having a high concentration of children from low income families. The local education agencies are responsible for developing and implementing projects to fulfill the intent of Title I. For fiscal year 1981, $3.1 billion (representing over 23 percent of the entire Department budget) was allocated for Title I programs. About $2.6 billion or 84 percent of the Title I allocation was distributed by formula through State education agencies as basic grants to local agencies to upgrade the education opportunities for disadvantaged children.

During the past six-month period, we issued 21 audit reports on programs in Elementary and Secondary Education. These reports recommended disallowances of $20.3 million and questioned costs of $.4 million.

a. <u>Overcharges for Unemployment Insurance Total $18.4 Million</u>

A review in one State indicated that the State was charging Federal programs an excessive amount of unemployment insurance compared to State-sponsored programs. Local districts were required to pay into the State unemployment insurance fund for all of their employees, regardless of whether those employees were working on federally sponsored or State-sponsored programs. As of July 1981, the contribution rate for federally sponsored programs was nine times the contribution rate for State-sponsored programs.

Because of the differences in the rates, federally funded programs had 13.8 years of cash reserve on hand as of December 31, 1981, while State-funded programs had only 2.8 years of cash reserves. If only 2.8 years of cash reserves were maintained for federally funded programs, the reserves could be reduced by $18.4 million.

We recommended that the State periodically review and, if necessary, adjust the unemployment insurance contribution rates to preclude excess collections, and that it refund $18.4 million to the Federal government. The State agreed with the first recommendation and indicated that it "shared our concerns" with the large federally funded cash reserve. Although it expressed the intention to systematically reduce the reserve, we pointed out that a cash settlement appeared to be the most practicable solution, since the interest income alone currently exceeds the total annual payout for federally sponsored programs. Accordingly, the cash reserves would increase even if there were no additional contributions for

federally funded projects. Departmental officials are currently resolving the findings and recommendations contained in this report.

b. <u>Joint Administrative Costs of $750,000 Inadequately Supported</u>

A review of administrative costs claimed by a State education agency under Title I disclosed that the State agency had not implemented necessary procedures to properly allocate and support joint administrative costs charged to the Title I program. Rather, joint costs were being claimed as direct charges based upon budget projections or arbitrary allocations. Federal regulations require that joint costs be recovered under a negotiated indirect cost rate based on an approved cost allocation plan.

As a result of the deficiencies noted, the auditors determined that about $750,000 in joint costs claimed were not properly allocated or supported. Specific claims which were not properly allocated or supported consisted of: $546,000 in salaries and fringe benefits, $36,000 in travel, $128,000 in rental of real property, and $40,000 in other central support services.

The report recommended that the State refund $750,000 in unsupported costs and implement an effective cost distribution system for allocating appropriate joint administrative costs to the Title I programs. The State generally concurred with the findings, but disagreed with the recommended refund. Departmental officials are currently resolving the findings and recommendations in this report.

c. $1 Million in Title I Expenditures Overclaimed

An audit in another State disclosed that the State Department of Education had significantly overstated expenditures on its Title I financial status reports.

This occurred because financial status reports improperly included amounts which the State had approved for expenditure by local education agencies, but which had not yet been expended or obligated. Our audit also disclosed that the State was commingling funds for different award years contrary to Federal regulations. For example, beginning with fiscal year 1978, carryover funds from prior years' awards were combined with the current year's awards and classified as "available without regard to fiscal year" in the State's accounting records.

As a result of the deficiencies noted, the State overclaimed about $1 million of fiscal year 1978 funds which should have been returned to the Federal government because they were not spent within the statutory time limit.

We recommended that the State Department of Education: base its financial status reports on actual expenditures and obligations occurring within the statutory time limits, account for Title I funds separately by award year, and refund $1 million to the Federal government. Departmental officials are currently resolving the findings and recommendations contained in this report.

d. <u>Inadequate Fund Reallocation Procedures Result in Title I Children Not Being Served</u>

Another review indicated that a State education agency was not reallocating excessive amounts of unbudgeted Title I funds retained by local education agencies as required by Federal regulations.

During project years 1979 and 1980, for example, funds totaling $8 million and $12 million respectively were not budgeted for Title I projects by local education agencies. Rather, the funds were carried over by the local agencies into the next project year. This condition occurred because the State education agency had not fully developed procedures to determine the amounts of unbudgeted funds retained by local agencies which could be classified as "excess" and reallocated to other local agencies having a greater need. Based on the results of our review, we estimate that about $1.5 and $3.5 million in project years 1979 and 1980, respectively, should have been considered for reallocation and that lack of action along these lines resulted in about 10,000 eligible children not being provided Title I services.

We recommended that the State education agency develop procedures to evaluate the need for retention of unbudgeted funds by local education agencies and reallocate funds identified as excess to other local agencies with the greatest need. Departmental officials are currently resolving the findings and recommendations contained in the audit report.

2. Vocational Education

The Vocational Education program is administered by the Office of Vocational and Adult Education. The overall goal of the program is to prepare students at the secondary and postsecondary levels for employment in occupations not requiring a four-year college degree. Federal grants are provided to the states to:

- Extend, improve and, where necessary, maintain programs of vocational education;
- Develop new programs of vocational education;
- Overcome sex discrimination and sex stereotyping in vocational education programs; and
- Provide part-time employment for youths who need the earnings from such employment to continue their vocational training on a full-time basis.

The intent of the program is that all persons have access to vocational training which is suited to their needs and the requirements of available job opportunities. Particular emphasis is placed on meeting the needs of the disadvantaged and handicapped through special programs and services that will enable the participants to succeed in regular vocational education programs. The fiscal year 1981 appropriation for Vocational Education was $862 million, including $518 million for basic grants to States.

Public Law 94-482 has mandated fiscal audits of the vocational education programs administered by each State (see page I-6). The same law requires that States submit to the Department five-year plans describing how monies allocated to them will be spent.

Audits in several States highlighted below indicate failure to adhere to the five-year plan and other deficiencies relating to the allocation of funds to local education agencies and other subrecipients. The problem of lapsed funds carried over from one year to the next, described in our last semi-annual report, was also noted in several audits during this period. During this reporting period, we issued eight reports which recommended disallowances of $14.8 million and questioned costs of $18.4 million.

a. <u>Vocational Education - Up to $27.9 Million in Lapsed and Misspent Funds Recommended for Recovery</u>

A review of one State's vocational education program disclosed significant deficiencies in the State's planning and implementation of the program and in the related use of program funds.

Specifically, the report noted that the State Department of Education had not fully implemented the planning process as stated in its five-year plan and that $3.2 million in Federal funds were awarded in certain program areas that were not as critical as others. In addition, the award and post-award procedures in use provided little assurance that funds were awarded in relation to labor market needs.

The report also points out that the State did not obligate carryover funds in compliance with applicable regulations. We found that improper accounting adjustments in the amount of $767,000 were made to avoid returning unused funds and that the State spent $13.6 million of 1979 funds in 1980 on

ineligible projects and as much as $13.5 million of 1980 funds in 1981 on ineligible projects. Moreover, the audit disclosed that a $14 million Federal fund authorization had been accumulated in excess of funds needed to fund current vocational education program operations.

The auditors recommended a number of procedural changes to ensure more effective administration of the program and improved accounting over program funds. Recovery of approximately $27.9 million in lapsed and/or misspent funds was also recommended. Departmental officials are currently reviewing the findings and recommendations contained in this report.

b. <u>Deficiencies in State Management of Vocational Education Program Result in Recommended Recoveries of $389,000 and a Recommended Fine of $170,000</u>

An audit of the administration of the vocational education program in one State disclosed that improvements were needed by the State to better ensure that the funds provided were used for the purposes intended and effectively administered and controlled.

The audit report noted that Federal and State plan requirements for allocating vocational education funds were not followed and that the State awarded funds to schools in 1980 without required documentation that non-Federal fiscal effort had been maintained. In addition, the State failed to adhere to approved allocation formulas contained in the State plans. The report also points out that the State did not appropriately identify and use set-aside funds for persons

with limited English speaking ability and that costs claimed by some schools were not limited to only the excess costs of training disadvantaged and handicapped students. As a result, set-aside funds of about $158,000 were misused. Additionally, about $173,000 in Subpart 4 funds were used inappropriately, and unallowable expenditures of about $58,000 were charged to the program.

The report recommended that the State refund $389,000 and that a minimum penalty of $170,000 be assessed because persons with limited English speaking ability were not served. The report also recommended that the State recompute, using approved reimbursement rates, the amount of Federal vocational education funds schools should have received in 1978 through 1980, and refund to the government any overclaims.

Responsible State officials agreed that $389,000 of Federal funds had been misused. They did not agree, however, with the other recommendations noted. Program officials are working with State officials to resolve these findings.

3. Vocational Rehabilitation

The Office of Special Education and Rehabilitative Services administers programs in two broad funding areas: Vocational Rehabilitation and Education for the Handicapped. During this reporting period, OIG issued 18 reports on programs administered by this Office involving recommended disallowances of $2.7 million and questioned costs of $13.4 million.

Funding under Vocational Rehabilitation is provided by formula and is designed to assist physically and mentally handicapped

individuals in becoming gainfully employed. Federal funds distributed under these grants may be used to support up to 80 percent of expenditures made by State vocational rehabilitation agencies under approved State plans. Total funding for Vocational Rehabilitation amounted to approximately $980 million in fiscal year 1981.

Both reports highlighted below noted procedural and administrative weaknesses in the management of this program at the State level.

a. <u>Expenditures of $13.1 Million Questioned Due to Lack of Supporting Documentation</u>

In an audit of one State's vocational rehabilitation program, we were unable to perform all the necessary audit procedures required to determine the reasonableness and accuracy of expenditures reported. For the period October 1, 1976 to September 30, 1977, the State received a total of $13.1 million in Federal funds for the program, but OIG review disclosed that the available supporting records were incomplete, disorganized and not referenced.

The lack of an adequate, verifiable audit trail to support expenditures was in direct conflict with Federal regulations and the State's own plan which indicated that it had adopted policies and methods pertinent to the fiscal administration and control of the program. Several factors contributed to the absence of an audit trail. Chief among these was the lack of written procedures describing the method for compiling the quarterly financial status report to the Department from internal State reports and source documents. Further, the

compilation of this report was entrusted to a single individual and others were not adequately familiarized with the unwritten procedures. The lack of an adequate audit trail had been identified previously in a Federal and also a State audit, but the State had never corrected the identified deficiencies.

We recommended that the State either provide documentation to support the questioned expenditures or return the amount of $13.1 million to the Department. We further recommended procedural improvements to ensure an audit trail for all subsequent expenditures of Federal funds. Departmental officials are currently reviewing the findings and recommendations contained in this report.

b. Weaknesses in the Administration of Vocational Rehabilitation Program Result in Overclaim of $1.2 Million

An audit covering the financial administration of the vocational rehabilitation program in one State disclosed significant deficiencies affecting the accuracy and reliability of financial data in use to report and claim costs incurred under the program.

Specifically, the auditors found a number of weaknesses in procedures and electronic data processing systems in use by the State which led to an overstatement of program costs of about $808,000. The review also found that year-end obligations for fiscal years 1976 and 1977 were inaccurately reported. In addition to these deficiencies, accounting system weaknesses resulted in excess claims of about $98,000 for electronic data processing costs and fringe benefits

charged to the programs. The report also notes that the Vocational Rehabilitation program was overcharged $272,000 for various administrative expenses such as word processing, building use charges, and central office costs. Improvements were also needed in the accountability and control of equipment purchased for the program.

The auditors recommended that the State take a number of actions aimed at improving procedural, accounting and system weaknesses, and that it refund approximately $1.2 million. The State did not generally agree with any of the recommended refunds, but did agree for the most part with the procedural deficiencies cited. Program officials are currently reviewing the findings and recommendations contained in this report.

4. Bilingual Education

Bilingual Education is authorized by Title VII of the Elementary and Secondary Education Act and consists of a number of different programs designed to increase the English-language skills of children whose proficiency in English is limited and to provide support services for these activities. In fiscal year 1981, $157 million was awarded under Bilingual Education. A key element of these programs is improving the capacity of States and local school districts to implement and maintain programs of bilingual instruction that can be carried on when Federal funding is reduced. During this period, we issued nine reports on Bilingual Education which recommended disallowances of $5.9 million.

Statewide Review Reveals Local Projects Not Meeting Bilingual Education Program Goals

A major audit effort revealed that projects in one State's local school districts have failed to meet the intent of the Bilingual Education programs. This effort, consisting of the review of seven school districts and an overall review of the State education agency, is the pilot for a multi-state review to determine the effectiveness of State and local education agencies in implementing and carrying out federally funded programs of bilingual education.

Audit work in this State agency and the local agencies that were reviewed disclosed generally that children were not being effectively served under the programs and that projects did not improve the State and local efforts on an ongoing basis. The audit work also disclosed that the State did not adequately coordinate projects among the local districts. The auditors found an excessively high level of participation by students who were not classified as having limited proficiency in English and the failure to provide services to those for whom the Federal programs are targeted.

On the basis of these reviews, we concluded that the school districts generally violated the intent of both the Title VII Bilingual Education program and the grant awards. We recommended that the local districts refund $5.9 million, that certain current projects be discontinued and that funding for future projects be withheld until it can be demonstrated that they meet the intent of the program. We also projected a savings of $1.3 million as a result of actions initiated

during the course of the audit. Departmental officials are currently reviewing the findings and recommendations contained in these reports.

5. Student Financial Assistance

Student Financial Assistance programs are administered by the Office of Postsecondary Education and provide financial aid to individuals to obtain education or training beyond the high school level. Financial aid provided to students in fiscal year 1981 represented about $6.4 billion in grants, direct loans, interest on loans, guarantee loans and earnings through work study programs.

During the six-month period covered by this report, the OIG issued 2,187 reports on Postsecondary Education, most of which concerned the administration of Student Financial Assistance programs. These reports recommended disallowances of $10.3 million and questioned $8.3 million.

In addition to audit work involving Student Financial Assistance programs, the bulk of OIG's investigative workload is comprised of cases in this area. (Refer to Section II of this report for more information.)

Audit reports issued this period identified a number of opportunities for improvements in the administration of education programs by postsecondary educational institutions, State guarantee agencies, and the Department of Education. Some of the significant problems found related to inadequate documentation; inaccurate awards; inaccurate applications for campus-based program funds; and excess advances to State guarantee agencies. We also found a need for changes in

existing legislation and regulations governing certain aspects of the programs administered by the Office of Postsecondary Education. These and other problems noted are highlighted below.

a. Improvements Needed in State Guarantee Agency's Administration of Guaranteed Student Loan Program

An audit of one State guarantee agency found that the agency had not credited loan accounts and/or rebated prepaid insurance premiums to borrowers who prematurely withdrew from school. As a result, borrowers were charged excess insurance premiums. Also, default claims submitted to the Federal government were overstated by the amount of unearned premium fees obtained by the agency. Additionally, we found that excess interest was being billed to the Federal government by lenders because the agency had not established controls to ensure that student loans were promptly converted by the lender to repayment status when students withdraw from school.

More importantly, our review disclosed that Federal seed funds of $1.3 million advanced to the agency to assist in meeting defaulted student loan payments to lenders were no longer needed by the agency. We found that the agency's loan guarantee reserve fund, including Federal advances, had a balance of $4.3 million on June 30, 1980; however, the defaults, net of recoveries, for each of the past two years were less than $900,000. Although these advance funds are not needed, the Higher Education Act of 1965 as amended provides, for the vast majority of these advances, that repayment shall not be required until the advances exceed 20 percent of a

guarantee agency's outstanding insurance obligation. The advances and earnings thereon represented about 12 percent of the agency's outstanding insurance obligation as of September 30, 1980.

We recommended that the agency take appropriate action to correct the conditions noted and that it consider returning those advances no longer needed. The agency agreed to correct most of the deficiencies noted but disagreed with our recommendations regarding the return of unneeded advances. However, it subsequently returned $178,400 of advances, in response to prodding by the Regional Office of Student Financial Assistance. The Department is now in the process of considering our report and the agency's reply in order to determine the corrective action to be taken.

At the time this audit report was issued, we were in the process of auditing a guarantee agency in another State and had found a similar condition of excess advance funds. We pointed out these conditions to the Office of Postsecondary Education and recommended that the Department re-examine Federal requirements governing the return of these advances. We are also initiating an internal audit to determine the extent of unneeded advances nationwide and to identify specific corrective action needed.

b. Deficiencies in School's Administration of Student Financial Assistance Programs

An audit report prepared for us by the Department of Health and Human Services' Office of Inspector General on the administration of Student Financial Assistance programs at one

school disclosed that: the school's accounting records were inadequate, awards were made to ineligible students, documentation to support awards or disbursements to students was missing, and various regulations were not followed.

Financial and compliance tests covered $1.8 million of the school's $2.7 million of reported disbursements during the audit period. Because of the deficiencies noted, we recommended that the school make financial adjustments of $1.3 million or, in some instances, provide appropriate documentation. We also recommended that the school restore institutional funds to its National Direct Student Loan fund as appropriate. Many of the awards were questionable or unallowable for more than one reason.

c. <u>School Could Not Provide Adequate Documentation to Support Over a Million Dollars in Student Aid Fund Expenditures</u>

An audit of a proprietary school disclosed that the school did not have adequate controls over the receipt and disbursement of Federal funds. The internal controls were not adequate to ensure the funds were properly accounted for and used for purposes intended under program regulations. We found that because of missing or inadequate documentation, the expenditure of Federal funds totaling about $436,500 could not be identified to specific students and/or financial aid programs, and that about $26,300 in unauthorized National Direct Student Loan expenditures were made. Our review of student academic and financial aid files for required compliance documents and the accuracy of award computations also showed that an additional $479,200 of unallowable or inaccurate awards were made.

We also noted that the school had identified refunds totaling $120,300 that were due to the Federal account. The school also identified about $10,000 of its National Direct Student Loan matching funds that had not been paid to the National Direct Student Loan account.

We recommended that the school refund $1,072,300 to ED in accordance with the provisions of an existing Limitation Agreement between the school and ED. The school generally disagreed with the findings and recommendations in our report and is researching its files to try to obtain proper documentation for all disbursements and awards.

d. Interest on National Direct Student Loan Funds Improperly Credited to State's General Fund

Interest in the amount of $716,000 earned by a State on National Direct Student Loan funds from seven State universities was credited to the State's general fund instead of to the universities' National Direct Student Loan funds as required by Federal regulations. According to these regulations, any interest earned on Federal National Direct Student Loan monies must be credited to the National Direct Student Loan account and cannot be used for other purposes. The State's improper crediting of these monies reduced the funds that could have been used to make additional student loans.

The State maintained that it credited the earned interest to the general fund to avoid being in noncompliance with State law. We found, however, that the State law provides an

exception for certain types of interest, such as that earned on the National Direct Student Loan funds.

We recommended that the State repay to its National Direct Student Loan account the total amount of interest earned during and subsequent to the period of the audit and that it credit all future interest to the National Direct Student Loan account. The State agreed with the latter recommendation but did not agree that the prior interest earned should be repaid to the National Direct Student Loan account. ED program managers are reviewing the report and the State's response to determine the corrective action to be taken.

e. <u>$665,000 Questioned or Disallowed Based on Deficiencies in Student Awards</u>

A Regional Office of Student Financial Assistance requested that OIG audit a college because of some significant deficiencies it had found in its own program review of the college.

Our audit disclosed a lack of documentation on student eligibility, disbursements in excess of amounts for which students were eligible, and unsatisfactory academic progress by students. In addition, we found that the College Work-Study time records were not properly maintained to support the actual work effort, Federal cash reported as held by the college was not always available in the Federal cash accounts, and the college's ratio of current assets to current liabilities was less than the one-to-one ratio required by regulations. Moreover, our review of the National Direct Student Loan program showed that the college was lax in

providing necessary consumer information to student borrowers, performing exit interviews, maintaining contact with the borrowers, obtaining signed repayment plans, and monitoring the billing and collection activities of the contractor.

In addition to the recommended financial adjustments for disallowed or questioned costs of $665,000, we made a number of procedural recommendations to improve the overall administration and control of the programs.

The college's response to the draft audit report was positive and constructive and indicated that corrective action was being taken. ED program managers are evaluating the findings and the college's action.

6. Internal Audits

During this period, the OIG initiated eleven internal audits and issued nine final reports on the internal operations of the Department. In addition, the OIG participated in four projects initiated by the President's Council on Integrity and Efficiency and issued a survey report on one project concerning Government-owned property in the hands of contractors and grantees. A discussion of significant internal audits completed this period follows.

a. Improvements Needed in Implementation Plans to Improve Management Control Over Consulting Services and Related Reporting Requirements

An evaluation of the Department of Education's progress in instituting effective management controls over consulting service contracts, disclosed that the Department has not

adequately implemented its plan to improve management control over consulting services and related reporting requirements. Consequently, there was little assurance that planned improvements in awarding and controlling consultant services contracts would be effected.

Among other things, we found that the plan lacked a specific time schedule for instituting planned actions, and that copies of written justifications for consulting services were not being provided to the Senior Executive Service manager and the Inspector General. We also noted that the Department had not formally designated a Senior Executive Service manager to be responsible for effective implementation of the management control system as required.

We also found that there was a need to initiate numerous other actions called for in the plan such as the development of a quality assurance program, the preparation of written performance evaluations of each consultant contract, and the correction of various problems associated with reporting data into the Federal Procurement Data System.

Management officials generally concurred with our findings and recommendations related to these issues and have taken or plan to take appropriate corrective actions.

b. Improvements Needed in Regional Office Reviews of Institutions and Lenders Participating in Student Financial Assistance Programs

Internal audits conducted in four regions disclosed that the effectiveness of institution and lender reviews could be significantly enhanced by taking actions such as improving

methods in use to select the entities for review, limiting the scope of reviews, improving timeliness and documentation of review results and taking prompt action to recover funds due. Examples of some of the more significant deficiencies noted in the reviews follow:

- In one region, reviews were made at many schools where the amount of student aid was not substantial. Consequently, opportunities to identify misused or improperly expended funds were limited and resulting liabilities developed by the review staff were generally immaterial. In calendar year 1980, for example, 28, or 41 percent of the 69 reviews performed were made at institutions which had campus-based and Pell Grant awards of less than $35,000.

- Reviews in another region failed to disclose that federally-insured student loan insurance premiums of approximately $1.1 million had been owed to ED by lenders for six months or more.

- In that same region, special allowance payments were continued on delinquent loans even when due diligence was not exercised by the lenders in servicing and collecting loans. This condition may have been a significant factor in the region's special allowance payments, which totaled $61.5 million in fiscal year 1980 alone.

- In another region, only four followup reviews were made at schools found to have very significant deficiencies in fiscal year 1979. In addition, two of the four followup reviews did not include coverage of all previously reported problem areas. Only one lender followup review was made between 10/1/78 and 5/1/81.

We have issued these four reports to the regional offices where responses have been generally favorable. We plan to issue a consolidated nationwide report later this year which will include recommendations aimed at improving the quality and effectiveness of the review efforts nationwide.

7. Contracts and Discretionary Grants

ED annually awards approximately 12,000 discretionary grants and 1,000 contracts totaling about $1.5 billion. The awards are made to State and local governments, educational institutions, and profit and non-profit organizations for a variety of educational services. The Office of Assistance Management and Procurement Service and the National Institute of Education have responsibility for awarding contracts and discretionary grants. OIG provides a variety of contract and grant audit services to the Department, including audits of cost proposals and contract closing statements.

Contract and grant audit services are provided directly by ED-OIG staff and by other Federal audit offices - principally the Department of Health and Human Services' Office of Inspector General and the Defense Contract Audit Agency - under interagency audit agreements. Budgetary constraints imposed during this period have forced us to curtail or reduce our reliance on other offices to provide these services. As a result, the number of reports issued during this period has declined.

As reported in our prior semi-annual report, OIG entered into contracts with four Section 8(a) independent public accounting firms in September 1981, for audit services needed on approximately 80 contracts. Each of the contracts exceeded $100,000, was physically closed and was subject to final audit. During this period, 36 of the 80 contracts were audited. These audits contained recommendations for disallowances or questioned costs of $7 million and are included in the overall statistics discussed below.

During the reporting period, OIG issued 193 contract and grant audit reports that recommended disallowances of $3.5 million and questioned costs of $7.9 million. The audits also identified potential cost avoidances of about $2.3 million on pre-award audits. These audits continue to be effective in identifying and avoiding potential waste and abuse in the Department's procurement activities.

a. Pre-Award Audits

Reports on audits of cost proposals are advisory in nature. However, they are extremely important because they serve to assist the Department in final negotiations with contractors by identifying areas for potential cost savings. Following are several examples pointing out the value of these audits.

(1) A contractor submitted a proposal of about $500,000 for a project entitled, "Using Vocational Education to Improve Economic Development in High Unemployment Areas."

The purpose of the project was to promote vocational education as a means of initiating economic development programs in urban and rural areas of high unemployment. Our audit raised several concerns regarding the advisability of awarding the contract and recommended that the Department consider these concerns prior to the award. In particular, we were concerned that the objectives of the contract apparently duplicated one of the stated objectives of the State-operated vocational education program. After consideration of this and other issues raised by the OIG, the Department decided against the award of the contract, resulting in a cost avoidance of $500,000.

(2) A recently completed audit of a $2.3 million contract being considered for extension, identified about $674,000 in unallowable and questioned costs and an additional $300,000 in potential annual cost avoidances. Among other things, the auditor found that:

- The contractor's accounting system was not adequate for the accounting and administration of cost reimbursement-type contracts.
- Consultants were paid for more days of service and at a daily rate higher than that provided for in the contract.
- Labor costs were not adequately supported by time records and were seriously suspect because of differences between reported days of the week worked and actual calendar days, and differences between signatures on the time records and those on canceled pay checks.
- The contractor claimed excess provisional indirect costs and did not make an indirect cost rate submission after the close of each fiscal year as required by the contract terms.

More significantly, the auditors found that approximately 50 percent of all direct costs paid to the contractor were in turn disbursed to subcontractors, and that a modest expansion of ED's current role coupled with greater interaction, coordination and communication among the sub-contractors could eliminate the need for the prime contractor at an annual savings of about $300,000.

ED procurement officials are reviewing the report and the option presented prior to reopening formal negotiations with the contractor. Our concerns regarding the propriety of labor costs charged have been turned over to our investigative staff.

b. Closeout Audits

Closeout audits are necessary to assure that costs claimed and reimbursed are reasonable, allocable and allowable under Federal procurement regulations and Departmental requirements. These audits continue to disclose instances where recipients claimed and received reimbursements for unallowable costs. Examples of some of these audits follow.

(1) An ED-OIG audit of a grantee that had received $2.7 million in Federal funds from several Federal departments and agencies disclosed that serious problems existed with the grantee's administration of federally funded programs, and that about $220,000 in costs claimed were either unallowable or unsupported. Among other things, the auditors found that the grantee:

- o Was insolvent and had ceased operations although legal proceedings had not been initiated to dissolve the corporation;
- o Had not established an adequate accounting system of internal controls for the receipt, custody and disbursement of cash;
- o Had incurred an operating deficit of $88,000 by March 31, 1981 and continued to accumulate costs subsequent to that date. Communications from the grantee's attorney indicate the deficit currently exceeds $200,000.

Further, the grantee's management had not established effective policies and procedures with respect to financial accounting or followed prudent management practices in carrying out its fiduciary responsibilities for federally sponsored projects. As a result, Federal funds were not expended for the purposes intended and the grantee engaged in activities that extended beyond the purposes for which it was founded.

We recommended that the Federal agencies involved not enter into negotiations with nor award future grants or contracts to the grantee and that they take appropriate action to recover $220,000 in unallowable and unsupported expenditures.

(2) Closeout audits of three contracts valued at about $1 million awarded to a contractor for evaluations and assessments of selected education programs and activities disclosed that about $139,000 of the funds claimed by the contractor was ineligible and that another $697,000 was not adequately supported by the accounting records. For example, pertinent documentation such as general ledgers, cost accounting records, time and attendance records, travel vouchers and vendor invoices necessary to support costs claimed were not available. In addition to these problems, the company president indicated the corporation had ceased operations.

Pursuant to our recommendations, the Department's procurement office has declined to negotiate or award further contracts to the company. Subsequent to the audit we learned that the president, who had previously owned two other corporations, had established a new company. Since solicitation of Department contracts under the new company name was anticipated, we alerted the Department's procurement office of the new company name and the names of its principal officers.

E. AUDIT RESOLUTION AND RECOVERY OF FUNDS

While actual resolution of audit findings and recommendations is the responsibility of program and management officials in

ED, OIG monitors the resolution of audit reports to ensure that they are promptly and effectively acted upon. During this period, we have closely monitored the resolution of audits over six months old. This is in accordance with the Supplemental Appropriations and Rescission Act of 1980 which required that all future audit reports with questioned costs be resolved within six months of issuance.

To assess the effectiveness of both our audit effort and the resolution process, we also monitor the determinations made by Department officials in resolving recommendations in our reports. Costs sustained represent those monetary recommendations in which Department officials have agreed with our recommendations.

1. Resolution of Audit Reports

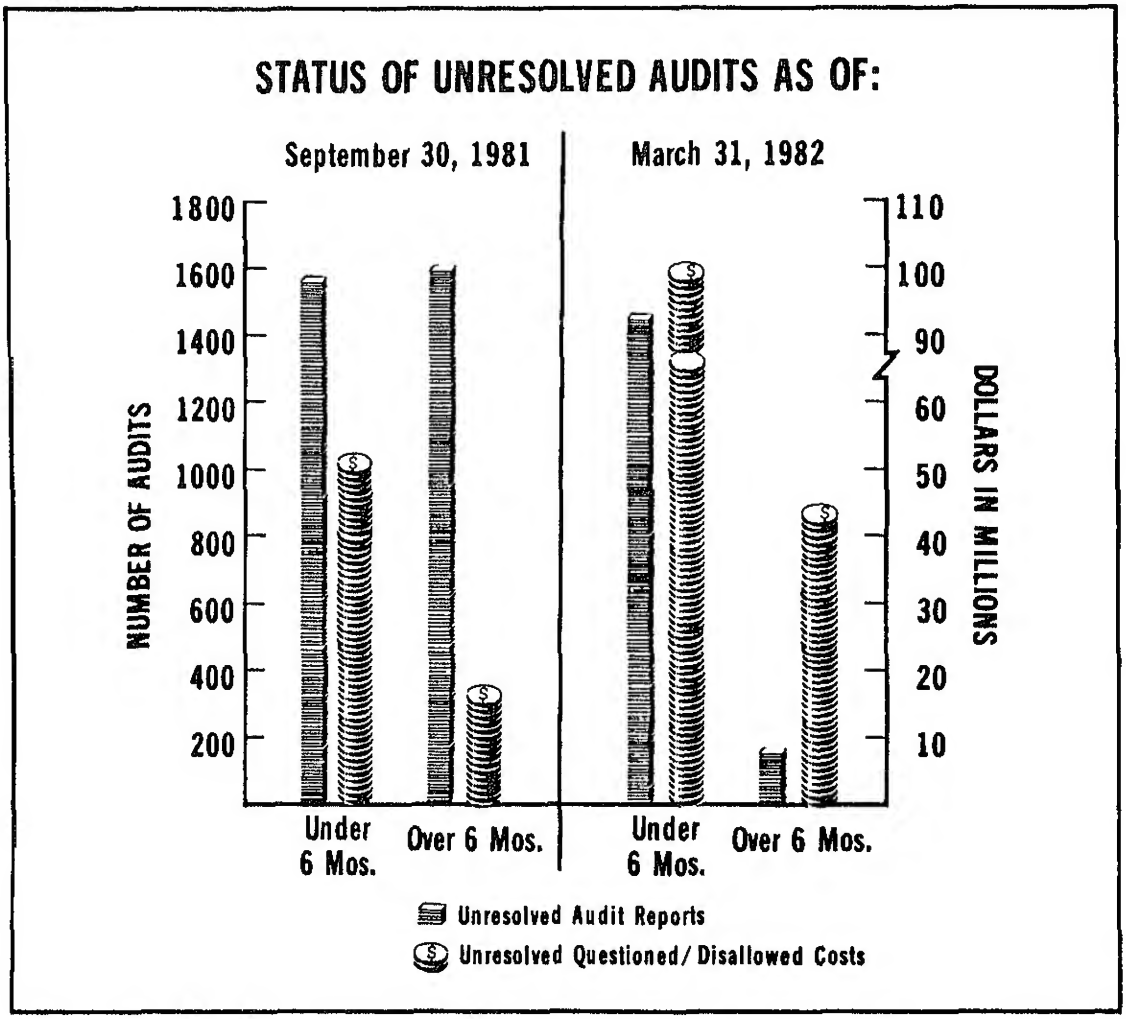
Historically, the timely resolution of audit reports has been a major problem in the Department. In our last semi-annual report, we noted that the total number of unresolved audit reports continued to increase over the prior period to 3,367 (representing recommended disallowances or questioned costs of $67.8 million). As a result of increased concern and activity on the part of Departmental management this period, the trend was reversed, and the total number of unresolved audits dropped to 1,624 (representing recommended disallowances and questioned costs of $144.5 million) as shown below.

AUDIT RESOLUTION ACTIVITY
October 1, 1981 to March 31, 1982

Action Office	Unresolved Audits on Hand as of 10/1/81	Action Audits Issued This Period	Audits Closed This Period	Unresolved Audits on Hand as of 03/31/82
Postsecondary Education Assistance	3,282	1,572	3,378	1,476
Management and Procurement Service	49	98	54	93
Special Education and Rehabilitative Services	15	14	13	16
Vocational and Adult Education	9	8	3	14
Elementary and Secondary Education	9	14	11	12
Educational Research and Improvement	3	7	-0-	10
Bilingual Education and Minority Languages Affairs	-0-	3	-0-	3
TOTAL	3,367	1,718	3,461	1,624

Special ED attention was devoted to resolving those audit reports over six months old which totaled 1,804 at the end of the previous reporting period. In response to the mounting total of audits over six months old, the Department initiated a short-term plan to address the backlog problem. The plan, which was initiated prior to the close of the last reporting period, involved transferring a large number of unresolved audit reports to ED regional offices for resolution. As a result of this initiative the number of audits over six months old had dropped to 164 by the end of the current period.

While the number of audits over six months old has decreased, the total dollar amount of recommended disallowances or questioned costs in these audits has actually increased from $17.4 million in the last period to $44.1 million at the end of this period. This is attributable to several unresolved audits containing very high recommended disallowances or questioned costs. For example, three audit reports contain over half of the unresolved costs in audits over six months old.



While improvements made to date have been impressive in resolving audits - especially those over six months old - the Department still needs to ensure that appropriate action, emphasis and resources continue to be applied to the resolution of all audits. Recognizing that a comprehensive long-term solution to the problem of audit resolution was necessary, the OIG, in concert with Departmental officials, has developed a comprehensive audit resolution system. Final comments on the proposed Departmental directive are being solicited prior to issuance.

2. Resolution and Recovery of Disallowed or Questioned Costs

During this period, ED management sustained $32.4 million representing 59 percent of the $54.6 million disallowed or questioned in audit reports resolved this period. This compares with a total of $27.6 million, or 42 percent, sustained during the last period. The $22.2 million not sustained by program managers during this period had been allowed because the auditees subsequently provided supporting documentation or because program officials determined that sufficient information was not available to sustain the recommended recovery. In addition to the $32.4 million sustained, program officials identified additional amounts for recovery, bringing the total recoverable to $37.6 million.

During this period, a total of $7.7 million was recovered on resolved audits.

F. STATUS OF PRIOR AUDIT RECOMMENDATIONS

This section presents the status of audit highlights in our previous semi-annual report which have yet to be resolved. Management has been generally responsive to our

recommendations. The matters reported below, however, are complex or involve large amounts of recommended disallowances or questioned costs.

1. Vocational Education

a. $11 Million in Lapsed Federal Funds Improperly Used (Pages 17-19 in prior report)

Audits in three States disclosed that the States were unable to fully utilize funds allocated to them within the prescribed time period and that these unused funds have not always been returned to the government. Auditors recommended that a total of $11 million be returned by the three States.

Status: Neither the States involved nor the Department's program officials agreed with our position or with the findings and recommendations for refunds in our reports. The Department is currently considering the matter of lapsed funds and whether the States in question should be required to return these funds.

b. Ineffective Program Administration Leads to Recommended Disallowances and Questioned Costs of $13.4 Million (Pages 20-21 in prior report)

The deficiencies noted in this audit of a State education agency related primarily to a lack of internal controls to assure proper funding decisions and a lack of effective procedures and practices in awarding and monitoring subgrants. The auditors recommended disallowances of $13.4 million.

Status: Since this State was also among those cited for improper use of lapsed funds above, its resolution is still awaiting Departmental decision on this matter. Program officials are working to resolve this report.

2. Student Financial Assistance

a. Different Interest Computation Methods Resulted in xcessive Interest Payments (Page 24 in prior report)

Excessive interest payments of as much as $4 million nationwide may have been made to lenders and the Student Loan Marketing Association, because ED regulations permitted interest to be charged either on the average quarterly or on the average daily balance of loan principal balances outstanding. We recommended that ED revise the interest billing methods.

Status: Program management officials agreed with our recommendation and promised to revise the interest billing methods, but have not yet issued the new regulations.

b. Poor Cash Management Practices in Student Financial Aid Programs Resulted in Unnecessary Interest Cost of $1.3 Million (Pages 25-26 prior report)

This audit disclosed that postsecondary schools in one region had excessive Federal cash on hand. We estimated that schools in this region in 1980 had $11.6 million in excess cash, resulting in $1.3 million in unnecessary interest costs to the Federal government. On a nationwide basis, ex-

cess cash may have totaled $102 million and unnecessary interest costs $11.4 million in 1980. We recommended that ED management require schools to report excess cash balances immediately and return any excess cash and that the Department deny advance funding to those schools which persist in abusing Federal cash advances. We also recommended that the Department propose legislation to (1) provide a one-year authority to reuse National Direct Student Loan funds returned by schools and (2) require schools to pay interest on cash that is drawn in excess of current needs.

Status: ED officials generally agreed with our findings and recommendations and are now in the process of coordinating corrective action within the Department and with other Federal agencies to deal with this complex problem. The Department is also currently considering our recommendations with regard to proposed legislation.

c. College Work Study and National Direct Student Loan Funds of $960,000 Misused (Page 44 in prior report)

An audit of a university's College Work Study and National Direct Student Loan funds disclosed payments of $675,000 to ineligible students for College Work Study and improper use of funds from both programs for general operating expenses. We recommended that the university repay ED $960,000 for the improper expenditures.

Status: Program officials agreed with the recommendations and are actively working with the institution to reach a final resolution of the findings.

3. Internal Audits

a. Inadequate Controls Over Check Receipts Result in Potential for Abuse and Unnecessary Interest Costs of About $250,000 (Pages 29-30 in prior report)

Our review of the controls in use over remittances to the Department showed that they were inadequate to ensure that all funds were properly accounted for, adequately safeguarded and deposited promptly. We recommended that an integrated organization plan be developed to provide adequate internal controls over receiving, processing and depositing checks.

Status: Department officials agreed with the report findings and have made progress in implementing the recommendations. Action on many of the recommendations has not been completed pending approval for reorganization, centralization and staffing of positions.

b. Inadequate Controls Over Interest Payment (Pages 31-32 in prior report)

Our report showed that the Department had not given sufficient management attention to establishing adequate procedures and support systems to assure that interest payments are accurately, promptly and properly recorded.

Status: Department officials generally agreed with our findings and recommendations to correct the reported deficiencies. Final resolution of these deficiencies is contingent on the completion of a new Interest Billing System by the end of fiscal year 1982.

4. Contracts and Discretionary Grants

a. Closeout Audit - Lack of Supporting Documentation (Pages 36-37 in prior report)

A closeout audit of a $1 million contract recommended disallowances or questioned costs of $536,000 because pertinent accounting records necessary to support costs claimed were not available.

Status: Our office subsequently completed closeout audits of three other contracts awarded to the same contractor involving another $1 million (see page I-35). The latter audit identified an additional $836,000 in unallowable and questioned costs bringing the contractor's total potential liability to ED to $1.4 million. ED officials are currently working to resolve all audit issues with the contractors and no final resolution has been made on the amount of refunds due ED.

b. Closeout Audit - Improved Accounting and Internal Control Procedures Needed (Page 37 in prior report)

An audit of one State university's administration of $5.8 million in Education Department grants and contracts disclosed that accounting and internal control procedures needed improvement. The auditors recommended that a total of $802,000 be recovered and that the university make certain changes in its accounting policies and internal controls.

Status: ED officials are currently working with the university to correct the accounting and internal control system deficiencies identified in the audit report.

G. OTHER AUDIT MATTERS

1. Title I Court Decisions

Two Federal circuit court decisions rendered during this period may significantly affect ED's ability to recover funds misspent under Title I of the Elementary and Secondary Education Act. These decisions, State of New Jersey v. Shirley Hufstedler 662 F.2 208 (3d Cir. 1981) and State of West Virginia v. Secretary of Education 667 F.2 417 (4th Cir. 1981), involved three States (a case involving the State of Pennsylvania was decided along with the New Jersey case in a consolidated decision) that were appealing determinations by ED that they refund monies identified in OIG audits as having been misspent. The impact of these decisions - both made during the same week in October - is uncertain at this time since they directly contradicted each other.

In the New Jersey decision, the Court found that the Federal government had no authority to order repayment of the misspent funds through an administrative process because the funds were received prior to 1978. The Federal government may have to sue in a Federal district court to recover in each case. The Court held that statutory authority to recover the misspent funds administratively did not exist until it was specifically enacted in the EJucation Amendments of 1978. Conversely, the West Virginia decision

upheld the Department's right to recover funds through an administrative process. The decision stated, "There is no legislative indication that the authority to order repayment is to be effective only prospectively, and the statute's remedial purposes will be more fully served by applying it retroactively."

Petition for rehearing in each of these cases was denied. The Department of Justice was considering at the end of this reporting period whether to appeal the adverse decision in the New Jersey case to the United States Supreme Court. Deadline for appeal in the West Virginia case has already expired.

2. Single Audit Concept

The Inspector General strongly supports the single audit concept and recently testified before a Congressional Committee that in his opinion the process was both conceptually sound and administratively feasible.

Several activities have been undertaken this period to further promote and implement the requirements of Attachment P:

- Principal OIG officials have held numerous speaking engagements with Federal, State and private organizations including Intergovernmental Audit Forums, Chief State School Officers, the Association of Government Accountants and the Council for American Private Education.

- The Inspector General was designated the Chairman of the Single Audit Steering Committee established by the Joint Financial Management Improvement Program. In this capacity, he is responsible for coordinating the implementation of Attachment P at the various levels of government.

- The OIG has developed a slide and viewgraph training package for use in presentation to State and local government groups.

Additionally, our Regional Inspectors General for Audit have met with officials of practically all State departments and agencies for which this Department has cognizance to familiarize them with the single audit concept and to survey their operations. Additionally, the OIG is providing technical assistance and guidance to non-Federal auditors planning single audits.

In Delaware, where we have cognizance for the entire State, the State auditor is in the preliminary stages of conducting a single audit of all State departments and agencies. To assist the State auditor in performing a single audit which meets the needs of the other Federal agencies, we established a committee composed of representatives from each Federal agency providing grant and contract awards to the State. The committee approach will enable us to provide effective up-front technical assistance and guidance. To date, two States - Alaska and New Jersey - have completed single audits of their State Departments of Education.

SECTION II

INVESTIGATION ACTIVITIES

A. INTRODUCTION

The OIG's aggressive effort to identify and successfully prosecute persons defrauding ED programs has resulted in a doubling of convictions and pleas of guilty or nolo contendere. In addition the dollar value of assessed fines and restitutions increased dramatically because of one major case. The number of investigative cases opened and closed also increased. An overview of the investigation activities during this reporting period and an update of significant cases previously reported is presented in the following sections along with case workload statistics, investigative accomplishments and highlights of cases.

B. INVESTIGATION ACCOMPLISHMENTS

During this period assessed fines and restitutions resulting from our investigations increased from $55,000 in the prior six-month period to $3,932,000 in this period. That amount was assessed against one corporation and 29 separate individuals. The largest fine was $31,000 and the largest restitution was $3,750,000, which was paid by a corporation, as stipulated in a plea agreement, for filing improper Guaranteed Student Loan default claims.

In addition, 32 defendants have been sentenced to incarceration, probation, or pre-trial diversion, nine are awaiting sentencing, and eight are in a fugitive status. These and other accomplishments achieved during this six-month period are shown in the following comparative schedule of our output and performance measures for the three most recent reporting periods.

COMPARATIVE SCHEDULE OF INVESTIGATION OUTPUT/PERFORMANCE MEASURES

Output/ Performance Measures	The Six-Month Periods Ending:		
	3/31/81	9/30/81	3/31/82
Cases Opened	220	108	119
Cases Closed	124	83	101
Cases Referred for Prosecution	32	69	57
Cases Accepted	10	43	36
Cases Declined	22	26	21
Indictments/ Information	5	41	24
Convictions/Pleas	12	16	34
Restitutions and Fines	$2,500	$55,000	*$3,932,000

* Includes a single restitution in the amount of $3,750,000.

Another noteworthy achievement during this period involved the role played by the OIG in getting a State to strengthen control over its Guaranteed Student Loan program.

The OIG has investigated several cases in one State in which individuals have fraudulently received Guaranteed Student Loans by falsely claiming enrollment and attendance at postsecondary schools. These schemes have been accomplished through the forgery of school officials' signatures on the certification of enrollment portion of the Guaranteed Student Loan application. To date, OIG investigations have resulted in the successful prosecution of six individuals representing an actual loss to the Department of approximately $125,000. Our involvement in these cases has also prevented attempts by these subjects to obtain an additional $100,000 in Guaranteed Student Loan funds.

For years, the State guarantee agency in this State has allowed Guaranteed Student Loan lenders to have loan checks made payable solely to the borrower and mailed to his or her home address. As a result, in part, of the OIG investigation efforts, the State guarantee agency has now instructed lenders to make loan checks jointly payable to the borrower and the school and mail checks directly to the school. We believe that this new dual endorsement system will significantly reduce the incidence of Guaranteed Student Loan fraud in this State.

C. INVESTIGATION WORKLOAD ANALYSES

Following is summary data on the number of cases opened, closed and active for the period October 1, 1981 through March 31, 1982:

Cases active September 30, 1981	274
Cases opened this period	119
Cases closed this period	101
Cases active March 31, 1982	292

The cases opened during this period have been analyzed to show:

- o program areas which generate cases;
- o patterns of alleged criminal violations; and
- o major sources of allegations.

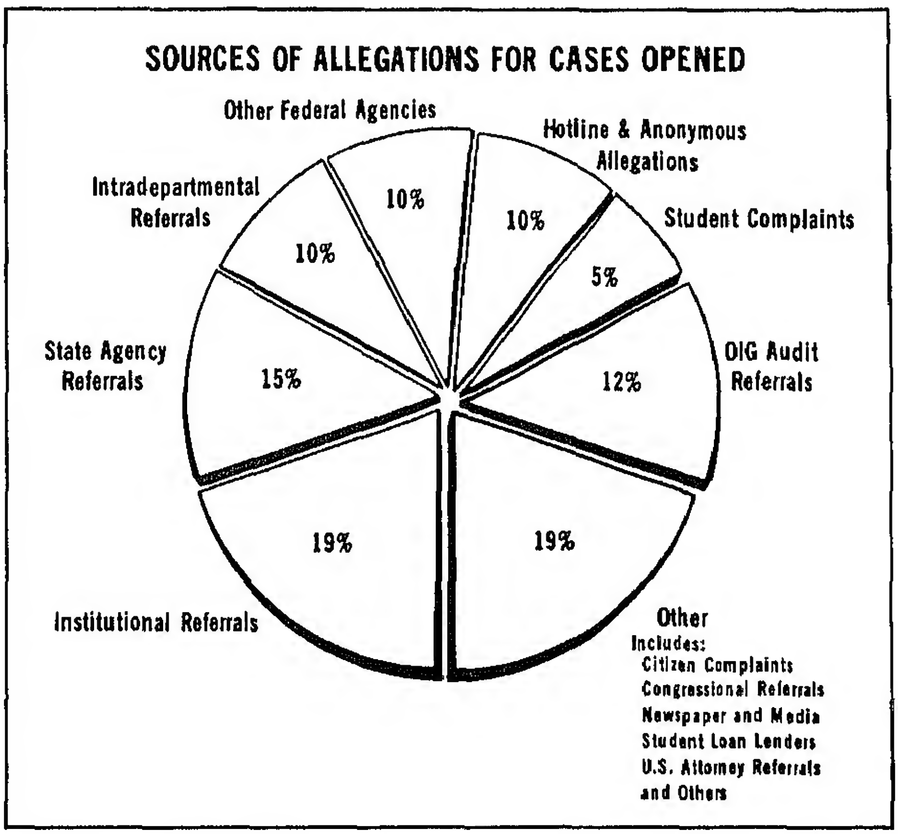
Abuses in the Student Financial Assistance programs continue to account for a majority of the cases initiated by OIG. During the current reporting period, 76 percent of the 119 cases opened involved one or more of these programs. This is an increase of 11 percent over the prior reporting period. Of the remaining cases, half, or 12 percent of the total, involved employee misconduct cases, and half involved other Education Department programs. The following chart shows the incidence of possible violations among the 119 cases initiated during this period (most cases involve several possible violations):

ALLEGED CRIMINAL VIOLATIONS

Description	Number of Cases in which Alleged
False statements	83
Student financial aid fraud	59
Embezzlement and failure to account for public funds	32
Fraud using the U.S. Mails, telephone, telegraph or false names or addresses	22

Conspiracy to defraud the U.S.	18
Bank fraud-credit information	16
False claims and demands for payment of public funds	12
Bribery of a public official and conflict of interest	3
Other Federal or local statutory violations	18

Allegations which lead to the initiation of OIG investigations are received from various sources. Analysis by source of cases initiated during the period discloses the following breakdown.



D. HIGHLIGHTS OF SIGNIFICANT INVESTIGATIONS

The following section provides examples of some of the most significant cases prosecuted or accepted by the U.S. Attorney during the period, an update of investigations highlighted in the prior semi-annual report, and a discussion of matters referred to Departmental officials for administrative action.

1. Cases Successfully Prosecuted or Accepted by U.S. Attorney

- In a plea agreement accepted by a Federal district court, a corporation pleaded guilty to three counts of false statements and one count of mail fraud, admitting that it lied to the government in its handling of default claims submitted under the Guaranteed Student Loan program. The company has paid a fine of $31,000 in the criminal case. Significantly, the plea agreement also stipulated that the firm repay $3,750,000 for improper default claims it had filed. The Department of Justice is also prosecuting two former employees who were charged in a 43-count indictment with conspiracy to defraud, false statements, mail fraud and aiding and abetting. The two held supervisory positions related to the administration of the Guaranteed Student Loan program at this corporation's school and had allegedly been involved in default claim falsification.

- The vice president and secretary of a securities firm was sentenced in a Federal district court to three years' imprisonment and fined $5,000 after he pleaded guilty to six counts of wire and mail fraud in connection with a scheme to defraud a bank. As part of the scheme, this individual induced a bank to purchase a $500,000 "package" of Guaranteed Student Loans by promising to transfer the loans to the bank's agent and to repurchase the loan portfolio in 90 days for $514,000. Although the bank received a sale document from the securities firm and verbal assurances from the defendant that

the loans were in route to the bank's agent, they were never delivered. The investigation established that the $500,000 "package" of Guaranteed Student Loans had never existed.

- The operator of a school pleaded guilty to obtaining approximately $35,000 in Student Financial Assistance funds by fraud and false statements. The defendant was sentenced to a year in prison, fined a total of $16,000 and will be required to perform 100 hours of community service upon release. The investigation was a cooperative effort with the Federal Bureau of Investigation.

- A Federal grand jury returned an 18-count indictment against two men in connection with fraud involving the Pell Grant program. The two were the principal officers and operators of several schools and were each indicted on six counts of mail fraud and 12 counts of false statements.

  The indictment alleges that from 1976 through 1979 the defendants engaged in a scheme to improperly disburse the approximately $800,000 of Federal education monies received by their schools. A substantial portion of the Federal funds advanced to the schools was allegedly used by one of the defendants for personal expenses. It was also alleged that they intentionally failed to properly administer the funds and misrepresented the true financial situation of the schools in order to obtain additional Federal education funds.

- The director of a proprietary school was charged with theft of government property and misapplication of Guaranteed Student Loans. A Federal grand jury handed down the 21-count indictment in February, which charged theft of almost $26,000 in student financial aid funds and misapplication of funds totaling $18,000 through failure to refund Guaranteed Student Loans made by a State lending agency to non-graduating students.

- A bank loan officer was indicted for embezzlement by a Federal grand jury. The loan officer was charged with approving approximately $9,000 in fraudulent Guaranteed Student Loans and diverting the loan

proceeds to his personal use. The joint investigation with the Federal Bureau of Investigation also determined that the defendant had previously been convicted of forgery, violation of parole and grand theft with criminal impersonation. A trial date has not yet been set for this case.

- A Department of Education employee pleaded guilty to a one-count information charging Student Financial Assistance fraud. Investigation by OIG established that the employee had fraudulently obtained student loans totaling approximately $10,000 between 1968 and 1979 and diverted the proceeds to his personal use. The employee also fabricated academic credentials on his Personal Qualifications Statement in order to be selected for a position with greater promotion potential. Sentencing is pending completion of a pre-sentence investigation by the United States Probation Office.

- The president and owner of a business college were sentenced to two years' imprisonment and fined $10,000. The owner, a former clergyman, will also serve two years' probation after release from prison. He had previously pleaded nolo contendere to a two-count information.

  The school had obtained over $157,000 in Pell Grants from 1979 until 1981 by falsely claiming that 232 inmates of a penitentiary were enrolled full time in a computer programming course offered by the school at the prison. A second college official, who directed the school's penitentiary education program, also pleaded nolo contendere to charges that he made false statements as part of a scheme to defraud the Pell Grant program. That official was sentenced to two years' imprisonment, a $10,000 fine and three years' probation to be served after release from prison. During the first two years of the probation, it was stipulated that the official will pay the $10,000 fine and make about $38,000 restitution.

- A former co-owner of a cosmetology school was indicted by a Federal grand jury. The six-count indictment charged mail fraud, embezzlement, false

statements, and student financial aid fraud. The ED-OIG investigation disclosed that the former co-owner, who has a prior conviction for embezzlement, misappropriated at least $99,000 in Pell Grant and National Direct Student Loan funds between June 1974 and October 1980.

- An individual who had falsely claimed he was a student at a beauty school pleaded guilty to embezzlement in connection with a scheme to fraudulently obtain Pell Grants and Guaranteed Student Loans totaling $4,000. A former school official, who assisted in the scheme by falsely certifying that the defendant was a student, was separately charged in the indictment with embezzling approximately $9,000 in Student Financial Assistance funds.

- As the result of a cooperative investigation with the U.S. Postal Inspection Service, a Federal district court sentenced an individual to three years' incarceration and ordered that she serve a minimum of six months. The defendant admitted making false statements, filing false loan applications and committing mail fraud in connection with a scheme to defraud the Guaranteed Student Loan program of $12,500. During a three-month period in 1980, the defendant received five Guaranteed Student Loans, using five different names and social security numbers, by submitting applications to various local banks. The defendant has a record of prior criminal offenses spanning nearly 20 years.

- A student was charged in a five-count indictment with bank fraud, mail fraud, and false statements in connection with a scheme to illegally obtain a Guaranteed Student Loan. The student, who worked in the school's financial aid office and received College Work-Study wages, used an alias and a fictitious social security number to obtain a $2,500 Guaranteed Student Loan. A trial date has not yet been set.

- A Guaranteed Student Loan applicant was sentenced to serve five years in prison and five years' probation. He was previously indicted on charges

of making false statements on Guaranteed Student Loan applications; forging the school certification stamp used on the applications; and committing mail fraud. The defendant has a prior record of criminal convictions. The court remanded him to the immediate custody of the United States Marshals Service. When his personal possessions were searched after he had been committed by the court, newly forged Guaranteed Student Loan applications and narcotics were found.

2. Matters Referred for Administrative Action

In appropriate cases, it is the policy of the Inspector General to refer the results of investigations to the proper Departmental officials for necessary administrative or personnel actions. Although the majority of these referrals involve employee misconduct, the following example concerns a programmatic matter at the grantee level.

- The OIG recommended that three local education agencies refund \$2.1 million in improperly expended Bilingual Education funds. The recommendation was based on the results of several investigations conducted by the OIG which established that the funds were used in violation of Federal regulations. Those violations were not, however, criminal in nature. Instead of providing bilingual instruction to children of limited English-speaking ability, the local education agencies were using the grants to teach either Spanish, French, or Italian to children whose dominant language was English. The findings of these investigations were referred to Departmental officials who are working to take appropriate action to recover the improperly expended funds and to deny additional grant funds for similar unintended purposes.

3. Update of Previously Reported Investigations

Our last semi-annual report highlighted several investigations which have since been concluded with the following results:

- We previously reported that a Federal grand jury in New York returned a four-count indictment charging an individual with bank fraud pertaining to the Guaranteed Student Loan program. That indictment led to the first of many convictions flowing from a Guaranteed Student Loan fraud scheme perpetrated by at least fifteen members of one family. Their criminal activity has thus far been traced to three States and dates back to 1975.

  To date, nine persons have been charged with false statements, bank fraud and/or mail fraud and one defendant has entered guilty pleas in two States. Seven other persons have pleaded guilty in one State, and one additional family member has been indicted in two States. More indictments and convictions are expected as this investigation continues.

- In February 1982, the 65 year-old owner of a computer training school pleaded nolo contendere to a felony charge of making false statements about College Work-Study funds he obtained in 1979. As reported in our last semi-annual report, the defendant was charged, in a seven-count Federal grand jury indictment in August 1981, with fraudulently obtaining nearly $17,000 in work-study program funds by falsely reporting that he used the funds to employ students. Sentencing in this case is set for mid-April 1982.

- As reported in our last semi-annual report, 27 persons were indicted by a Federal grand jury for fraudulently obtaining over $92,000 in Guaranteed Student Loans and Pell Grants by falsely claiming to be United States citizens. The indictments were the result of a two-month joint investigation by the Inspectors General of the Department of Education and the Department of Health and Human Services, United States Postal Inspectors, Immigration and Naturalization Investigators and the United States Marshals Service.

  The investigation established that these 27 persons (18 men and nine women) had gained eligibility for the loans and grants by falsely claiming to be

United States citizens. The defendants had attended ten area schools and colleges at various times.

To date, nineteen have pleaded guilty and have received suspended sentences of from six months to three years and have been placed on probation with orders to make restitution of the illegally obtained loans and grants. Of the remaining eight cases, seven defendants are fugitives and one indictment was dismissed.

SECTION III

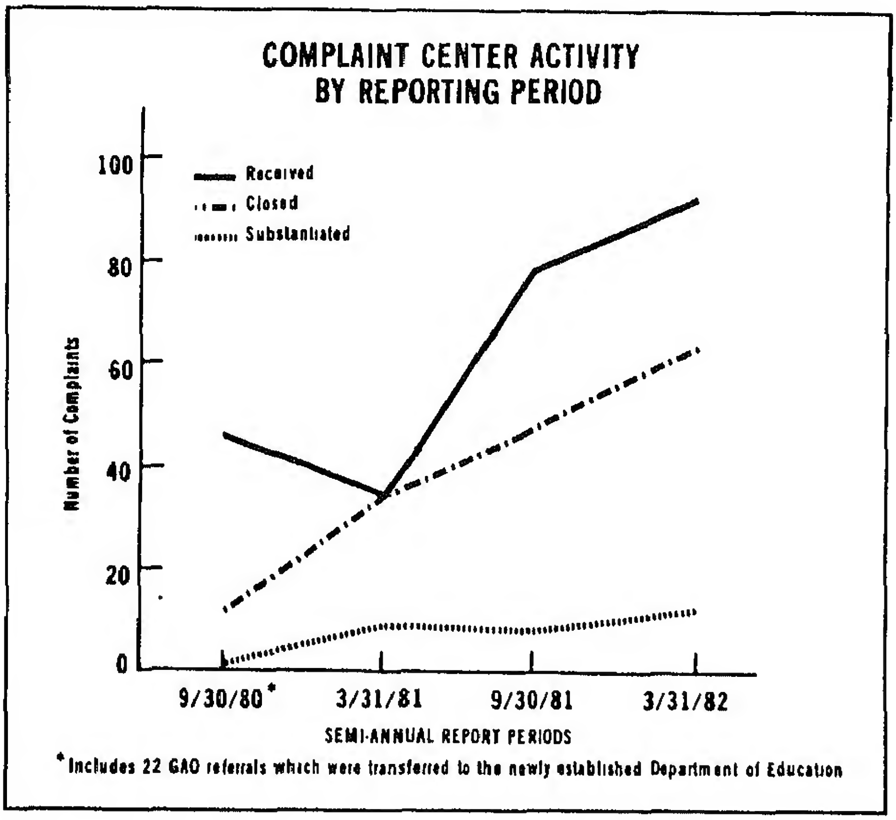
FRAUD CONTROL ACTIVITIES

A. INTRODUCTION

This period showed an increase in the number of complaints and allegations received on the OIG Hotline concerning possible fraud, waste and abuse in various Education programs. Also during this period, the Department's Committee on Fraud, Waste and Mismangement, working closely with the OIG, undertook a major effort to conduct a pilot review of internal controls at the National Institute of Education. The OIG also continued its efforts to heighten employee awareness of and sensitivity to the problems of fraud, waste and abuse through preparation and dissemination of another Inspector General Integrity Guide and conduct of training sessions on employee standards of conduct.

B. COMPLAINT CENTER

Since the Complaint Center (OIG Hotline) was established, we have received a total of 250 complaints including 72 referred by the General Accounting Office. To date a total of 155 complaints have been closed and 30, or about 20 percent, have been substantiated. The chart below depicts Complaint Center activity since inception.



During this reporting period, we partially or wholly substantiated 12 of the 63 complaints closed. The status of complaints received by major category follows.

Types of Allegations	Total Received To Date	Open as of 9/30/81	Received This Period	Closed This Period	Open as of 3/31/82
Student Financial Assistance	75	17	36	17	36
Grants/Contracts	60	22	15	10	27
Employee Misconduct	38	13	12	12	13
Administrative	35	7	12	13	7
Travel/Misc. Expense Funds	23	7	8	5	9
Other	19	0	9	6	3
TOTALS	250	66	92	63	95

Status of Complaints Received

As noted, the largest category of allegations received involved Student Financial Assistance. This is compatible with our investigative experience (see page II-4), which shows that most cases opened also involved Student Financial Assistance.

While the number of complaints substantiated is relatively small (about 20 percent), results to date have been encouraging and have resulted in administrative or disciplinary action and actual or potential recoveries of misspent Education funds.

In fact, since its inception, savings and potential recoveries resulting from the OIG Hotline have amounted to approximately $215,000. Two examples of the more significant complaints substantiated during this period follow.

- An anonymous complainant alleged that a public school district was misusing Title I funds provided under the Elementary and Secondary Education Act. The allegations claimed that program funds were used to pay heating costs for schools throughout the district, regardless of Title I participation. It was also alleged that Title I funds were used for unauthorized purchases of equipment and supplies not related to Title I concerns. The information received by the Hotline was referred to the Title I director of the State involved. A subsequent audit by State program personnel substantiated most of the allegations. Misuse of over $10,000 in Title I funds was cited and the school district was required to refund the full amount. There was no evidence of criminal violation, but local authorities were advised of program areas requiring improvements in order to avoid future audit exceptions.

- Numerous complaints received on the OIG Hotline alleged that a postsecondary institution was misusing ED grant funds provided for bilingual education projects. Allegations involved the use of these grant funds for unrelated projects, overawards to participating students and unauthorized travel and purchases. An audit conducted by the OIG partially substantiated the allegations, confirming the use of $3,000 on projects not related to bilingual education and overawards of $7,500 to participating students. ED is currently seeking repayment of these funds.

C. SPECIAL PROJECTS

1. Review of Internal Controls at the National Institute of Education

A pilot project to review and evaluate the adequacy of internal controls in place at the National Institute of Education was initiated by the Department's Committee on Fraud, Waste and Mismanagement. Staff from OIG, the National Institute of Education and three other ED offices participated in the project. The purpose of the project was to develop internal control objectives for all the Institute's programs and activities; review and assess internal controls in place; and establish procedures for evaluating internal controls throughout ED.

Most of this project has been completed. In all, 64 internal control objectives were developed to assist management in achieving effective internal controls over the operations of the Institute. The project team has also completed its review of internal controls currently in place. A draft report of the findings and recommendations has been prepared and provided to management for review and comment.

The procedures developed for conducting internal control evaluations have been provided to ED for consideration and possible use in preparing its plan to meet the requirements set forth in Office of Management and Budget Circular A-123 on Internal Control Systems.

2. Employee Awareness

The OIG is continuing its efforts to heighten ED employees' awareness of their responsibility to prevent waste and mismanagement. The second in a series of Inspector General Integrity Guides has been completed and will be distributed in April 1982. The Guide summarizes the Department's time and attendance requirements and briefly cites case histories of time and attendance abuses and disciplinary actions taken. The Guide also highlights certain employee responsibilities and areas where there have been problems in the past. It further reminds supervisors of their first-line responsibility for recognizing and correcting time and attendance abuses at the earliest stages.

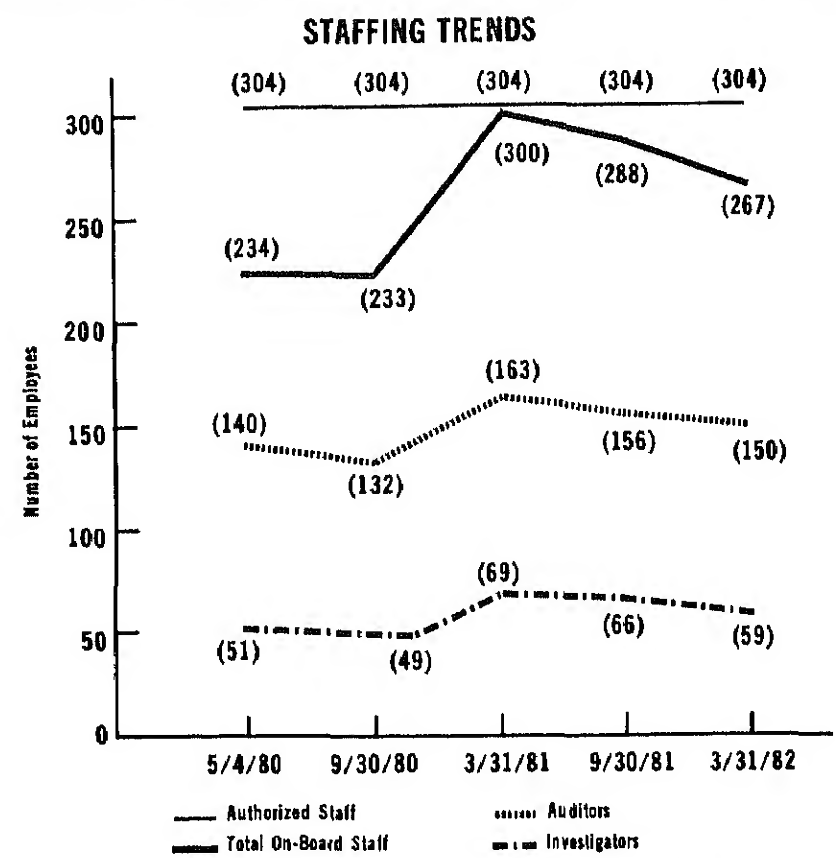
In a related effort to increase employee awareness, the OIG provided training on standards of conduct to three groups within headquarters and one in a regional office which included viewing of the film, The Consent of the Governed, an Enduring Public Trust. This film highlights employee responsibilities relative to standards of conduct. We are currently considering mandatory attendance of this training by all ED employees.

SECTION IV

OTHER MATTERS

A. STAFFING AND BUDGETARY CONSTRAINTS

Since its inception, OIG has been working under a full-time equivalent personnel ceiling of 304 positions. Of the 304 authorized positions, 267 were filled as of March 31, 1982 (see chart below). This represents a further drop in on-board staff from the last reporting period due to budget constraints.



This chart reflects the overall staffing situation since the formation of the Department on May 4, 1980.

Budget constraints during this six-month period have been severe. The President's fiscal year 1982 budget presented in March requested a total of $12,989,000 and 331 full-time equivalent positions for the OIG. Since that time, revisions to the President's budget along with actions taken by the Congress in passing a continuing resolution for fiscal year 1982 have served to reduce our overall funding and staffing levels by about 16 percent. Accordingly, we have been operating with a funding level of about $11,000,000 and an authorized ceiling of 304 full-time equivalent positions.

As a result of the budgetary constraints, we have had to: impose a hiring freeze; suspend promotions and reduce training; curtail essential travel and reduce the number of congressionally mandated audits we had planned to accomplish; and suspend reimbursable agreements with other Federal audit groups to have grantee and contract audits performed for us.

The conditions noted above have occurred in the last six months and are therefore not fully reflected in our reported output/productivity measures for the period. It is evident, however, that these conditions may well result in a discernable decline in our accomplishments for the next semi-annual reporting period.

B. REVIEW OF LEGISLATION AND REGULATIONS

The Inspector General Act of 1978 (Public Law 95-452), Section 4(a)(2), requires Inspectors General to review existing and proposed legislation and regulations relating to programs and operations of their Departments. Reviews

are made to determine the impact of such legislation and regulations on the economy and efficiency of programs and operations financed by the Department and on the prevention and detection of fraud and abuse in these programs and operations. During this period, we reviewed 31 pieces of legislative proposals and 67 proposed regulations.

We have also taken several steps during this period to improve the function of legislation and regulations review. To this end, Departmental procedures are being developed which provide for our review of proposed legislation and regulations as soon as possible and for submission of our own comments separate from those submitted by the rest of the Department when we deem it necessary. We have also worked to improve the internal OIG operating procedures in order to increase the quality and timeliness of our comments.

In addition to commenting on proposed legislation and regulations, we have placed greater emphasis on reviewing existing legislation and regulations during the course of our audit work. Some of the highlights of this effort are discussed below along with significant comments on proposed legislation and regulations.

1. Recommended Changes in Migrant Education Program Regulations

As a result of recent audit activity involving the administration of the Migrant Education program (funded under Title I of the Elementary and Secondary Education Act), we identified a need to consider the revision of the regulations which define eligible migrant children. We

believe that the number of children identified as currently migrant is materially overstated because regulations permit the counting of children who should not be considered as migrants.

The regulations define a currently migratory child as one " ... who has moved within the past twelve months from one school district to another .... " This definition classifies as migrants those children who move during the summer months - i.e., between school years - and therefore encounter no disruption of their education as a result of the move. In our opinion, such children are not migrants as envisioned by the Act and their inclusion in the migrant statistics dilutes the funds available to help those children who actually move between school districts during the school year.

We recommended that the regulations be amended to classify as migrant only those children who have moved between school districts during the last academic year (as opposed to the last twelve months). The program office generally agreed with our opinion of the intent of the legislation and informed us that our recommendation would be considered in the current drafting of regulations to implement the Migrant program's new authorization (under Chapter I of the Education Consolidation and Reconcilation Act of 1981).

2. <u>Pell Grant Program Administrative Cost Allowance, 1980-1981</u>

The Education Amendments of 1980 (enacted October 3, 1980) authorized the Secretary to reserve some Pell Grant program funds to pay participating institutions an administrative allowance of $10 per grant recipient. In December 1980, the

Department reserved about $26 million for this purpose and authorized institutions to draw these funds. However, the Supplemental Appropriations and Rescission Act of 1981, enacted on June 5, 1981, provided that no 1980-81 Pell Grant program funds could be paid for administrative expenses.

The Department is aware of the situation and is considering the specific action which should be taken. One possibility considered was to allow institutions to keep the funds drawn for administrative expenses prior to June 5, 1981 and require repayment of funds drawn subsequently.

We reviewed the information relating to the pending decision and concluded that ED should recover all administrative cost allowances which had been drawn by the schools. In December, we recommended that the Department recover as soon as possible the $22.8 million which had been drawn by institutions through December 15, 1981. No final decision has been made on this matter.

3. S. 1882 Debarment and Suspension

The purpose of this bill is "to prohibit Federal agencies from soliciting offers from, awarding contracts to, extending contracts with, or approving subcontracts for any person who has been barred or suspended by another agency." Although we generally supported S. 1882, we pointed out that the bill did not provide for the specific debarment and suspension procedures that Congress expects all agencies to follow.

C. PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

We are participating in a number of interagency projects and committees initiated by the President's Council on Integrity

and Efficiency which involve Government-wide efforts. A listing of the projects and committees which we are engaged in follows.

- Performance Evaluation Committee
- Standards of Conduct Committee
- Computer Audit Committee
- Training Committee
- Property Held by Contractors and Grantees
- Small Business Administration 8(a) Eligibility Verification Project
- Long Term Computer Match Project

D. SUBPOENAS ISSUED

The Inspector General is authorized to issue administrative subpoenas to require the production of information necessary for the performance of mandated responsibilities. During this reporting period, two administrative subpoenas were issued. There were also two subpoenas issued during the prior reporting period.

E. GENERAL ACCOUNTING OFFICE REPORTS

The OIG is the main receipt and control point for reports issued by the General Accounting Office, ensuring that they receive proper and expeditious handling. After the reports are processed, promised remedial actions are tracked by the OIG to assure completion. Beginning on April 1, however, this follow-up function is being transferred to the Office of Management.

In addition, the OIG maintains continuous liaison with the General Accounting Office in order to keep informed of its activities within ED and thereby minimize potential for overlap in coverage.

During this reporting period, we received eight General Accounting Office reports requiring comment or corrective action by the Department. Of these, three were draft reports and five were published reports. The Department responded to two of the three draft reports on time. The response to the third draft report is not yet due. Of the five published reports, three of the four responses completed were on time. The Department's response to the fifth report is overdue.

F. REFUSAL OF INFORMATION

Section 5(a)(5) of the Act requires the Inspector General to include in this report a summary of any report made to the Secretary whenever information or assistance is unreasonably refused or not provided.

During this period, the OIG has received support from top Departmental management and has not been unreasonably refused or denied information or assistance.

SECTION V

APPENDIX

REPORTING REQUIREMENTS

The specific reporting requirements as prescribed in the Inspector General Act of 1978 are listed below.

SOURCE	LOCATION IN REPORT
INSPECTOR GENERAL ACT	
Section 4(a)(2) -- Review of Legislation and Regulations	Page IV-2
Section 5(a)(1) -- Significant Problems, Abuses, and Deficiencies	Page I-8 Page II-6
Section 5(a)(2) -- Recommendations with Respect to Significant Problems, Abuses and Deficiencies	Page I-8
Section 5(a)(3) -- Prior Significant Recommendations Not Yet Implemented	Page I-39
Section 5(a)(4) -- Matters Referred to Prosecutive Authorities	Page II-2
Section 5(a)(5) and 6(b)(2) -- Summary of Instances Where Information was Refused	Page IV-7
Section 5(a)(6) -- Listing of Audit Reports	Page V-2

Federal Audits of Education Department Programs
October 1, 1981 through March 31, 1982

Section 5(a)(6) of the Inspector General Act requires a listing of each audit report completed by OIG during the reporting period. A total of 207 audit reports were completed by Federal auditors, 107 with audit findings and 100 without findings. These reports are listed below:

A. Audit Reports With Findings

Number	Auditee and State	Date Issued
01-20101	Rhode Island Higher Education Assistance Authority, RI	10/81
01-20102	Connecticut State Department of Education, CT	10/81
01-21003	Lyndon State College, VT	10/81
01-21202	Nine Educational Institutions, Region I Review, MA	03/82
02-11354	Boricua College, NY	08/81
02-21000	National Technical Institute for the Deaf, NY	11/81
02-21213	U.S. Savings Bank, Newark, NJ	01/82
02-21355	Beth Rochel Seminary, NY	10/81
02-21356	Mercy College, NY	01/82
02-21357	Apex Technical School, NY	03/82
02-21450	Helen Keller National Center, NY	02/82
02-23002	Office of Student Financial Aid -- Program Review, NY	11/81
02-23395	Communication Technology Corporation, NJ	03/82
02-23396	Communication Technology Corporation, NJ	03/82
02-23397	NOW Legal Defense and Education Fund, NY	03/82
02-23398	Center for Resource Management, NY	03/82
02-23405	Communication Technology Corporation, NJ	03/82
02-24000	New Jersey Vocational Rehabilitation Financial Administration, NJ	12/81
02-24001	Department of Labor and Industry, NJ	03/82
02-24003	Nassau Community College, NY	12/81
03-10001	McKeesport Area School District, PA	10/81
03-10002	Pennsylvania Department of Education, PA	10/81
03-21203	Smithdeal Massey Business College, VA	03/82
03-21204	Wheeler School, PA	01/82
03-21300	Delaware County Community College, PA	11/81
03-23002	Program and Lender Review -- Office of Student Financial Aid, PA	03/82
03-24000	Department of Human Resources, D.C.	11/81
04-20001	Georgia Department of Education, GA	02/82
04-20100	Florida Department of Education, FL	12/81
04-21200	Knoxville College, TN	12/81
04-21201	Florida A & M University, FL	11/81

04-21205	Albany State College, GA	02/82
04-21302	Edward Waters College, FL	02/82
04-23000	Regional Office Effectiveness Regarding Reviews of Student Financial Aid Lenders, GA	03/82
05-14202	Indiana State Board of Vocational and Technical Education, IN	09/81
05-20001	Illinois State Board of Education, IL	10/81
05-20008	Review of Selected Administrative Matters Pertaining to Timely Grant Close-outs, D.C.	12/81
05-20116	Wisconsin Board of Vocational and Technical Education, WI	11/81
05-20120	Blue River Special Education Cooperative, IN	03/82
05-20551	Ohio Rehabilitation Services Commission, OH	10/81
05-20553	Department of Economic Security, MN	03/82
05-21000	De Paul University, IL	01/82
05-21551	East West University, IL	03/82
05-23586	Indiana Department of Public Instruction, IN	01/82
05-23587	Indiana Department of Public Instruction, IN	10/81
05-23589	Indiana Department of Public Instruction, IN	01/82
05-23590	Indiana Department of Public Instruction, IN	01/82
05-23591	Indiana Department of Public Instruction, IN	01/82
05-23592	Indiana Department of Public Instruction, IN	11/81
05-23595	Indiana Department of Public Instruction, IN	01/82
06-20003	Migrant Student Record Transfer System, AR	01/82
06-20101	Texas Education Agency, TX	03/82
06-20102	Texas Education Agency, TX	02/82
06-20103	Austin Independent School District, TX	03/82
06-20104	Edgewood Independent School District, TX	03/82
06-20105	San Antonio School District, TX	03/82
06-20106	Dallas School District, TX	03/82
06-20107	Pharr-San Juan - Alamo School Districts, TX	03/82
06-20108	Harlingen School District, TX	03/82
06-20109	Bilingual Education, TX	03/82
06-20115	Bilingual Education, TX	03/82
07-20000	Falls City Public School District, NE	02/82
07-20100	St. Louis School District, MO	01/82
07-21200	State of Kansas, KS	03/82
07-23774	Kemp and Young, Inc., KS	02/82
09-20002	California Department of Education, CA	11/81
09-20005	California Department of Education, CA	01/82
09-20006	California Department of Education, CA	02/82
09-20007	California Department of Education, CA	03/82
09-20102	Employment Development Department, CA	10/81
09-21204	Student Financial Aid Cash Management -- Region IX,CA	02/82
09-21205	Office of Student Financial Aid -- Region IX, CA	12/81
10-20000	Superintendent of Public Instruction, WA	02/82
10-20001	Superintendent of Public Instruction, WA	02/82
10-20002	Bering Strait School District, AK	01/82
10-20004	North Kitsap School District, WA	12/81

10-20005	Division of Special Services, WA	03/82
10-20651	Alaska Department of Education, AK	02/82
10-21201	East Oregon State College, OR	12/81
10-21202	Lane Community College, OR	11/81
10-21203	Eastern Washington University, WA	11/81
10-21204	Everett Community College, WA	10/81
10-21205	Chemeketa Community College, OR	11/81
10-21207	Central Washington University, WA	10/81
10-21208	Washington State University, WA	01/82
10-21209	Boise State University, ID	10/81
10-23956	Quilcene Public School, WA	03/82
11-23002	Consulting Services, U.S. Department of Education, D.C.	12/81
11-23011	Horace Mann Learning Center, U.S. Department of Education, D.C.	02/82
11-23016	National Institute for Community Development, D.C.	11/81
11-23020	Review of Certifying Officers' Function, U.S. Department of Education, D.C.	12/81
11-23028	Recommendations for Refund of Bilingual Education Funds, Selected Louisiana Parishes, LA	10/81
11-23035	Union for Experimenting Colleges and Universities, OH	02/82
12-21450	Coalition of Indian Controlled School Boards, CO	01/82
12-23000	University of Southern California, CA	12/81
12-23320	Network, Inc., MA	11/81
12-23399	Center for Resource Management, NY	02/82
12-23541	Conserva, Inc., NC	10/81
12-23851	Exemplary Center for Reading Instruction, UT	02/82
12-23852	Loretto Heights College, CO	02/82
12-24109	Miranda and Associates, Inc., MD	11/81
12-24110	Urban Resources Consultants, D.C.	11/81
12-24119	RMC Research Corporation, VA	01/82
12-24124	Government Studies and Systems, Inc., PA	01/82
12-24134	Applied Management Sciences, Inc., MD	03/82
12-24151	National Conference of State Legislatures, KY	11/81
12-24250	Powell Associates, Inc., TX	10/81

B. Audit Reports Without Findings

01-24000	ABT Associates, MA	03/82
02-21200	Nassau County Community College, NY	11/81
02-21215	Stevens Institute of Technology, NJ	10/81
03-20103	Virginia Commonwealth University, VA	01/82
05-20113	Indiana Department of Public Instruction, IN	12/81
05-21215	University of Detroit, MI	11/81
05-21216	Northwestern University, IL	12/81
05-21217	Little Company of Mary Hospital, IL	12/81
05-21550	Push for Excellence, Inc., IL	11/81
05-24253	McKendree College, IL	02/82
06-11458	Rice University, TX	09/81
06-11459	Arkansas State University, AR	09/81
06-11460	University of Oklahoma, OK	09/81
06-11461	Texas State Technical Institute of Nursing, TX	09/81
06-11462	Baylor University School of Nursing, TX	09/81
06-23667	Educational Innovators, TX	03/82
06-24000	University of Oklahoma Health Science Center, OK	03/82
07-23777	American College Testing Program, Inc., IA	03/82
07-24000	Midwest Research Institute, MO	03/82
09-24000	Rand Corporation, CA	02/82
10-23957	Northwest Regional Educational Laboratory, OR	03/82
10-23958	Northwest Regional Educational Laboratory, OR	03/82
11-23021	Property Held by Contractors and Grantees, AR and WI	01/82
11-23025	American Coalition of Citizens with Disabilities, D.C.	10/81
11-23026	American Occupational Therapy Association, MD	10/81
11-23027	Review of Selected U.S. Department of Education Contracts, D.C.	12/81
12-23324	Network, Inc., MA	10/81
12-23325	Contract Research Corporation, MA	12/81
12-23326	Contract Research Corporation, MA	11/81
12-23402	New York Interface Development Project, Inc., NY	02/82
12-23404	Clark, Phipps, Clark and Harris, NY	11/81
12-23440	National Conference of States on Building Code Standards, VA	03/82
12-23446	Pennsylvania Department of Education, PA	10/81
12-23447	Council for Exceptional Children, VA	10/81
12-23448	Research and Evaluation Association, D.C.	10/81
12-23449	Joseph Froomkin, Inc., D.C.	03/82
12-23450	National Association of Student Financial Aid Administrators, D.C.	11/81
12-23451	Litigation Support Services, D.C.	11/81
12-23452	Greater Washington Education Telecommunications Association, Inc., D.C.	11/81
12-23453	Institute for Information Studies, VA	11/81
12-23454	Maryland State Department of Education, MD	11/81
12-23458	Reading is Fundamental, Inc., D.C	11/81

12-23533	Conserva, Inc., NC	12/81
12-23540	Conserva, Inc., NC	10/81
12-23674	Arkansas State Department of Education, AR	10/81
12-23772	University of Kansas, KS	10/81
12-23773	University of Kansas, KS	10/81
12-23775	Native American Research Institute, KS	12/81
12-23776	University of Nebraska at Omaha, NB	12/81
12-23846	Wyoming Department of Education, WY	01/82
12-23848	United Tribes Educational Technical Center, ND	02/82
12-23849	Dakota Plains Institute of Learning, SD	02/82
12-23886	Far West Laboratory, CA	10/81
12-23965	Washington State Superintendent of Public Instruction, WA	10/81
12-24000	University of Hartford, CT	11/81
12-24001	University of Vermont, VT	02/82
12-24002	Policy and Management Associates, Inc., MA	02/82
12-24050	Syracuse University, NY	10/81
12-24100	American University, D.C.	10/81
12-24101	Association for Educational Communications and Technology, D.C.	11/81
12-24102	Biospherics, Inc., MD	10/81
12-24103	Delta Research Corporation, VA	10/81
12-24104	Touche Ross and Company, D.C.	10/81
12-24105	General Physics Corporation, MD	10/81
12-24106	Association for Educational Communication and Technology, D.C.	11/81
12-24107	International Business Services, Inc., D.C.	11/81
12-24108	Applied Management Sciences, Inc., MD	11/81
12-24111	Applied Urbanetics, Inc., D.C.	11/81
12-24112	National Institute for Advanced Studies, D.C.	12/81
12-24113	Urban Resources Consultants, D.C.	12/81
12-24114	National Association of Counties, D.C.	12/81
12-24115	RMC Research Corporation, VA	12/81
12-24116	Conference of Mayors Research and Education Foundation, D.C.	01/82
12-24117	RMC Research Corporation, VA	01/82
12-24118	RMC Research Corporation, VA	01/82
12-24120	RMC Research Corporation, VA	01/82
12-24121	RMC Research Corporation, VA	01/82
12-24122	Applied Urbanetics, Inc., D.C.	01/82
12-24123	Applied Urbanetics, Inc., D.C.	01/82
12-24125	National Center for a Barrier Free Environment, D.C.	02/82
12-24126	WESTAT, Inc., MD	02/82
12-24127	InterAmerican Research Association, VA	02/82
12-24128	Touche Ross and Company, D.C.	02/82
12-24129	RMC Research Corporation, VA	02/82
12-24130	RMC Research Corporation, VA	02/82
12-24131	Lawrence Johnson and Associates, Inc., D.C.	03/82
12-24132	American Institute for Research, D.C.	03/82
12-24133	American Institute for Research, D.C.	03/82
12-24150	NTS Research Corporation, NC	10/81

12-24152	University of North Carolina at Chapel Hill, NC	01/82
12-24200	Ohio State University Research Foundation, OH	10/81
12-24201	University of Michigan, MI	10/81
12-24202	Bradley University, IL	11/81
12-24203	Ohio State University Research Foundation, OH	02/82
12-24350	University of Northern Colorado, CO	12/81
12-24351	University of Colorado Health Sciences Center, CO	12/81
12-24352	Utah State University, UT	01/82
12-24400	Ultrasystems, Inc., CA	10/81
12-24401	System Development Corporation, CA	11/81
12-24402	University of Southern California, CA	03/82

SCHEDULE OF ACCOUNTS RECEIVABLE

The Senate Committee on Appropriations' report on the Supplemental Appropriations and Rescission Bill, 1980 directed the Inspectors General to include in their semi-annual reports a summary of the total amounts due their agency or department, as well as amounts overdue, and amounts written off as uncollectible during the reporting period. The following schedule was provided by the Office of Financial Management Service for inclusion in our semi-annual report. The accounts receivable statistics have not been audited by the OIG and we are therefore unable to attest to the accuracy of the data provided.

DEPARTMENT OF EDUCATION

SCHEDULE OF RECEIVABLES
AS OF MARCH 31, 1982

	Accounts Receivable	Loans Receivable	Other Receivables
SECTION I: Reconciliation			
1. Beginning receivables 1/	140,237,008.63	9,381,098,820.26	1,984,553.00
2. Activity			
a. New receivables during the fiscal year 2/	206,337,497.88	261,421,995.15	2,231,998.00
b. Repayments on receivables	(169,517,213.27)	(93,141,937.84)	(1,182,351.00)
c. Reclassified amounts 3/	451,604,742.87	1,238,029.06	4,520,736.00
d. Amounts written off	(313,221.00)	(7,790,084.40)	--------
3. Ending receivables	628,348,815.11	9,542,826,822.23	7,554,936.00
SECTION II: Outstanding Receivables			
1. Current Receivables			
a. Not Delinquent	308,045,994.74	4,575,704,456.20	928,075.00
b. Delinquent			
1. 1-30 Days	20,550,834.81	72,067,874.78	20,658.00
2. 31-90 Days	22,217,658.24	48,288,430.18	35,329.00
3. 91-180 Days	29,340,889.97	71,119,256.81	75,909.00
4. 181-360 Days	38,029,744.57	67,760,563.39	1,510,259.00
5. Over 360 Days	60,578,423.05	298,784,334.90	1,045,249.00
2. Non-Current Receivables 4/	149,585,269.73	4,409,101,905.97	3,939,457.00
3. Total Receivables	628,348,815.11	9,542,826,822.23	7,554,936.00
SECTION III: Allowances and Write-offs			
1. Total allowances for uncollectible accounts, beginning of period	3,653,979.13	946,209,832.67	------------
2. Total actual write-offs during the fiscal year	(313,221.00)	(7,790,084.40)	------------
3. Adjustment to allowance account for the period (provision for loss expense)	295,641,315.60	28,656.65	------------
4. Total allowances end of period	298,982,073.73	938,448,404.92	------------
SECTION IV: Administrative Actions			
1. Delinquent accounts referred to GAO			
a. Number	--------	--------	--------
b. Amount	--------	--------	--------
2. Delinquent accounts referred to Justice			
a. Number	--------	26,619	--------
b. Amount	--------	69,061,837.79	--------

FOOTNOTES

1/ Portion of the balance reported in September 30, 1981 is now being reported separately for March 31, 1982 on appropriation 91-0102 (SAFA).

$2,774,436.00 represents outstanding Institutional accounts and is classified as a potential receivable due to the fact the LEEP is no longer funded and we are currently concentrating our efforts on reconciling all outstanding accounts.

The totals on this page do not reflect any accrued interest on accounts.

2/ Includes $261,221.00 to settle audit deficiencies.

3/ Promissory Notes reclassified from Accounts Receivable to Other Receivables - $6,505,289.00.
Audits under appeal reported as footnote on SF-220 dated August 30, 1981 $66,561,062.68
Reclassified audits to appeal status $8,416,703.00.

4/ Under the NDSL program, the loans receivable remain available for expenditures in institutional revolving loan funds until institutions decide not to participate in the NDSL program or refunds are collected as a result of either bankruptcy or large cash balances on hand.

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